WATER RESOURCES POLICY ISSUES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES

OF THE

COMMITTEE ON

ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

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WATER RESOURCES POLICY ISSUES

TUESDAY, JUNE 16, 1981

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON WATER RESOURCES,
Washington, D.C.

The subcommittee met at 10:07 a.m., in room 4200, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor, Bentsen, and Moynihan.

INLAND WATERWAYS

OPENING STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator **ABDNOR**. The subcommittee will come to order.

We want to welcome the many persons who have come to Washington to testify at today's important hearings that will examine the administration's proposed inland waterway user charge legislation, S. 810, as well as Senator Domenici's alternative approach, amendment No. 32.

Frankly, I am skeptical about the need for either of these proposals at this time. A fuel tax on waterway operators now exists. I question the need for sharply higher charges on the barge operators at a time when other forms of transportation remain subsidized. This is particularly important as any charges will be inevitably passed along to the shippers and consumers.

Nevertheless, the issue of user charges is one that bears careful review. As I see it, there are three basic issues that the subcommittee must address:

One. Would a system of user fees, related to the level of Federal expenditures, damage the barge industry and those dependent upon it, including the farmer and the consumer? Would it alter the competition among the various transportation modes?

Two. If a new system of user fees is considered to be necessary, what would be the fairest and least disruptive method to phase in such fees?

Three. Would new sources of revenues from waterway project beneficiaries provide the necessary capital for future development projects?

A major problem, of course, remains the fact that we have no final on user charge impacts, as required by Public Law 95-502. I am convinced that we need to have that information before we can act responsibly. I know that we will value the testimony of our witnesses from the Department of Transportation who will give us a preliminary view on that study.

This morning before we begin the hearings on the inland waterway user fees, we are going to revert back to the hearings that we held last week on the deepwater seaports. At that time my good friend and colleague, Senator Bennett Johnston, couldn't be with us. So this morning, Senator, we will let you start off and we will go into the subject of ports again, which I believe is what you wish to address.

STATEMENT OF HON. BENNETT JOHNSTON, UNITED STATES SENATOR FROM THE STATE OF LOUISIANA

Senator Johnston. Thank you, Mr. Chairman. I have a written statement which I would like to put into the record and just make a few comments. (See p. 66.)

When I came to the Senate in 1973, we were importing about 5 million barrels of oil a day. Shortly after I came, the Yom Kippur War occurred in October of 1973. You will remember President Nixon declared Project Independence, announcing that we were going to be completely independent of oil imports by the year 1980. President Nixon's plan of Project Independence was followed by President Ford's version of it and later by President Carter's National Energy Plan I and II.

I remember well President Carter's National Energy Plan I, announced in 1977, at which time we were producing 656 million tons of coal a year. He announced that by 1985 we would double that to 1.2 billion tons.

The common thread between the Nixon plan, the Ford plan, and the Carter plan, which were designed to reduce these imports, was the massive production of coal. Each of these Presidents talked about the huge coal reserve we have in this country. Well, 1980 came, the target date for President Nixon's fruition of his National Energy Plan I, and, lo and behold, we were still importing 5 million barrels of oil a day or more.

And so it is today that we continue to import 5, actually 5.4, million barrels of oil in this year 1981, while at the same time, Mr. Chairman, we have 20,000 miners idle. We have 100 million tons of coal capacity being unused. It is just incredible, isn't it? Here we sit in this Congress, which is dedicated to the idea of producing coal and to getting off oil imports, and in spite of everything we seem to do in these massive laws we pass, we don't improve the situation. Now why is it? Well, very simple, Mr. Chairman, because of what Congress does and what Congress has induced, specifically, the Clean Air Act and the Strip Mining Act, but most important the clogging of our coal-exporting capacity

Mr. Chairman, if we in this Congress will devote ourselves to what we know needs to be done, we can help solve this energy problem, because it is a solvable problem.

Now why should we want to export coal? It is a question I think we ought to answer, and the answer is very simple—because for every ton of coal we export, it goes into the world energy pool, which in turn backs out world oil, because if coal is used, obviously oil, will not be used, which in turn makes the supply greater and price lower. Just as simple as that. It also provides a huge impetus to our balance of payments. In 1980, we exported $4.5 billion worth of coal. By 1990 we could easily export another $10 billion worth of coal. And that $10 billion worth of coal that can be exported will do a massive amount for the balance of payments and, in turn, for inflation, because the balance-of-payments equation is almost as direct in its effect on inflation as is our Federal deficit.

The familiar figures you know: 27 percent of the world's coal; three and one-half centuries of coal use at present rates; capacities to export some 300 percent more than we do now.

The first chart I have up here, Mr. Chairman, is of U.S. coal exports, showing that, in 1970, actual exports were 40 million tons; 1979 actual, 66 million tons; 1980 it had grown to 90 million tons; and the potential for 2000 is 400 million tons. And that is from an indepth study as shown by the Executive Director of the International Energy Agency, of last year.

U.S. COAL EXPORTS

1978 ACTUAL 40 MILLION TONS

1979 ACTUAL 66 MILLION TONS

1980 ACTUAL 90 MILLION TONS

2000 POTENTIAL *400 MILLION TONS

*300 million tons of steam coal and 100 million tons of metallurgical coal.

STATEMENT BY DR. ULF LANTZKE, EXECUTIVE DIRECTOR, INTERNATIONAL ENERGY AGENCY, JUNE 30, 1980

Senator **Johnston**. Now, Mr. Chairman, there are alternatives to the great coal buyers of the world to U.S. coal. Indeed, decisions are now being made by the Europeans, the Japanese, the Koreans, and others, as to their long-term contracts. I want to tell you I know this firsthand because I have talked to the French, I have talked to the Finns, I have talked to the Austrians. When their delegations come over here, the first thing they want to know is can you assure us we will have ability to bring in the deep-draft colliers into your ports so you can have competitive prices? They are ready to make those long-term decisions now.

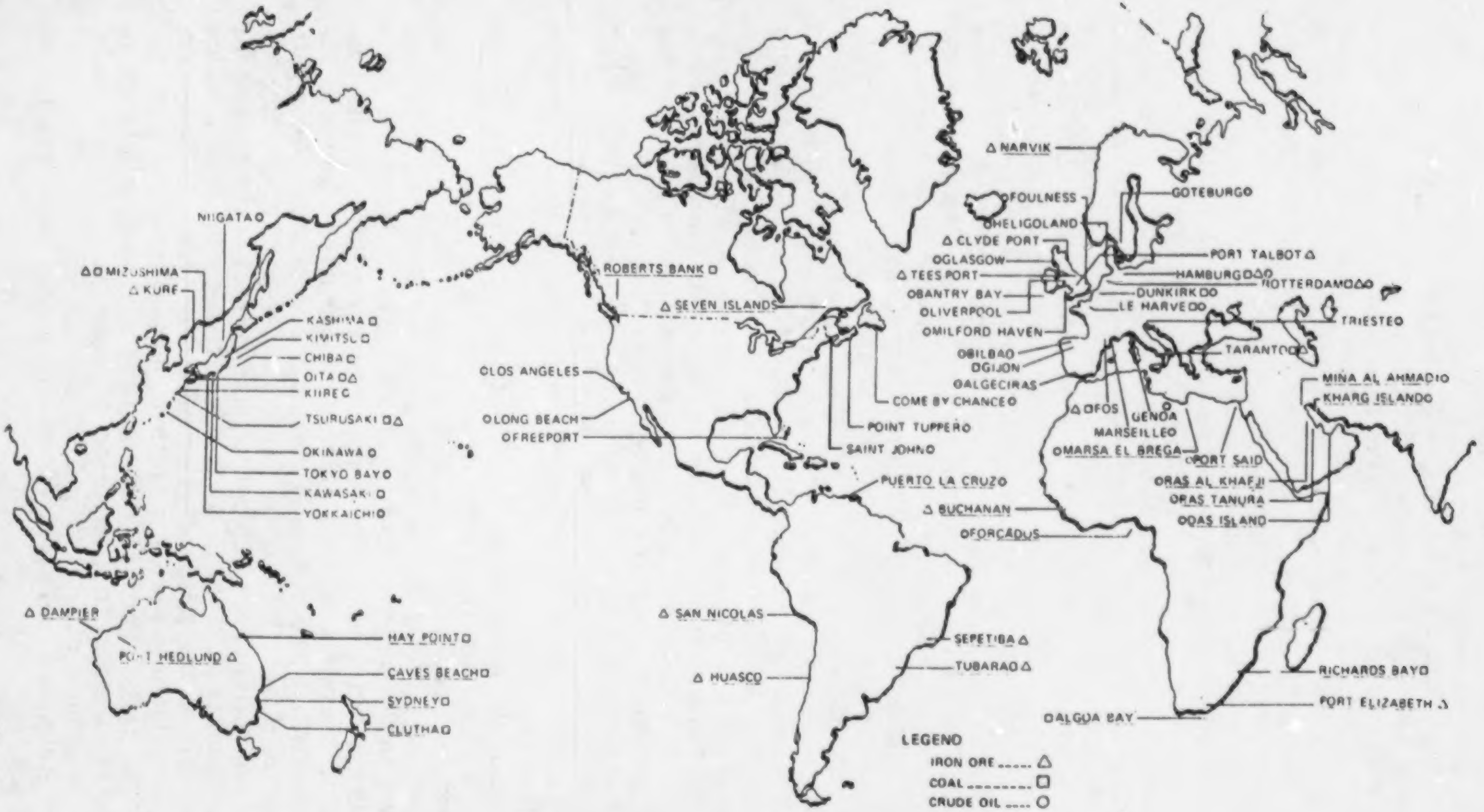
There are advantages and problems with our competitors. South Africa, for example, which presently has deepwater ports, has its problems with apartheid and the political instability that it could bring. Other than that, they are a very strong competitor. Australia has had in the past intermittent labor difficulties. They have a number—a number—of deepwater ports already that can handle the deep-draft carriers. And, I might add, we have had our labor problems in this country as well. Poland lacks the reserves, but it is very close to its markets. One of the biggest competitors we have is the potential for the Soviet natural gas supply. Now the Soviets have an enormous reserve in Siberia. They would have to bring it, however, in order to supply Western Europe, they would have to bring it four times the distance of the Alaskan pipeline, at a cost of over $10 billion. But that is a very viable competitor.

The point is all of these competitors have the export capability, if the Soviets build the gasline. The Australians or South Africans can export now with the deep-draft colliers. The big problem with U.S. coal is cost. It now costs 20 to 30 percent more delivery costs of U.S. coal than it does Australian or South African coal. So when I tell you, Mr. Chairman, it is a very competitive market and one in which decisions are being made now, that is true. As I say, I have talked to these people. The head of the French Coal Co., I had dinner with him and tried to tell him this Congress is going to respond to this. Now I hope Congress will respond where there is such a clear need.

Well, what do we have to do, Mr. Chairman? Looking at the problem 20 years ago the 15,000 deadweight tons—very small collier—dominated the market. By 1974, 6 percent were 100,000 deadweight tons or more of the world colliers. By 1979, that 6 percent had grown to 26 percent. And today we have 50 deepwater ports around the world, and I have a series of three little charts that show where these are located and their names, and you will see very prominently, as far as exporters are concerned, all competition is there. There is Australia with a large number. Here is South Africa with a large number with deepwater ports. And as far as the unloading coal ports of the world, here is Japan, which would be one of the greatest customers; they have it looks like eight or nine. Here is France with three deepwater ports. Belgium, Spain, all of those who are the competitor exporting and all of those who are the potential importers all have the deepwater ports. I would ask these charts be put in the record, Mr. Chairman.

Senator **Abdnor**. Thank you. Without objection, we will be happy to have those.

[The charts referred to follow:]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KASHIMA□
KIMITSU□
CHIBA□
OITA□△
KIIRE□
TSURUSAKI□△
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KAWASAKI□
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HAY POINT□
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SYDNEY□
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△ NARVIK
○FOULNESS
○HELIGOLAND
△ CLYDE PORT
○GLASGOW
△ TEES PORT
○BANTRY BAY
○LIVERPOOL
○MILFORD HAVEN
○BILBAO
○GIJON
○ALGECIRAS
△ BUCHANAN
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○MARSA EL BREGA
○PORT SAID
MINA AL AHMADI○
KHARG ISLAND○
○RAS AL KHAFJI
○RAS TANURA
○DAS ISLAND
SEPETIBA△
TUBARAO△
RICHARDS BAY□
PORT ELIZABETH △
○ALGOA BAY
LEGEND
IRON ORE ...... △
COAL .... □
CRUDE OIL .... ○

FIG. 1 REPRESENTATIVE WORLD PORTS CAPABLE OF ACCOMMODATING 150,000 DWT VESSELS

Figure 1

Table 3

Table 3. REPRESENTATIVE COAL LOADING PORTS OF THE WORLD

Country	Port	Existing berthing depth (m.l.w.)	Estimated maximum vessel size (d.w.t.)	Future developments
U.S.A.	Norfolk	45'	80,000	Possible dredging to 55'.
U.S.A.	Baltimore	40'	53,000	Possible dredging to 50'.
Canada	Roberts Bank	75'	250,000	Anticipated dredging to 80' for 300,000 d.w.t. vessels.
Canada	Port Moody	48'	80,000	Draft of 50' expected in near future.
Canada	Vancouver	50'	100,000	
Australia	Hay Point	60'	150,000	
Australia	Caves Beach	60'	150,000	
Australia	Clutha	60'	150,000	
Australia	New Castle	38'	45,000	
Australia	Port Kembla	38'	45,000	
Australia	Sydney	43'	40,000	Project now under construction with 70' depth for 200,000 tonners.
S. Africa	Richards Bay	75'	250,000	
S. Africa	Algoa Bay	80'	250,000-300,000	
England	Immingham	45'	80,000	Is able to handle 120,000 tonners with the 24' tide.
Poland	Gdansk	36'	40,000	
Poland	Swinoujscie	39'	40,000	

Table 4. REPRESENTATIVE COAL UNLOADING PORTS OF THE WORLD

Country	Port	Existing berthing depth (m.l.w.)	Estimated maximum vessel size (d.w.t.)	Future developments
Japan	Oita	89'	300,000	Now under construction in the Beppu Bay.
Japan	Kawasaki	44'	70,000	Expansion of depth to 58' planned.
Japan	Kimitsu	60'	150,000-200,000	
Japan	Wakayama	48'	80,000	Expansion underway.
Japan	Mizushima	58'	150,000	Expansion underway.
Japan	Kashima	65'	200,000	Expansion of depth to 78' planned.
Japan	Chiba	57'	130,000	Expansion of depth to 65' planned.
Japan	Tsurusaki	59'	150,000	
Italy	Bagnoli	76'	80,000	
Italy	Taranto	52.5'	120,000	Planned for a depth of 80'.
W. Germany	Hamburg (Elbe)	40'	50,000	Outer port being planned for 300,000 tonners.
W. Germany	Bremerhaven	48'	80,000	Future depth to 50'.
Holland	Amsterdam	49'	90,000	New outer port at Ijmuiden planned depth 62'04".
Holland	Rotterdam (Europort)	64.5'	200,00	Maasvlakte being constructed for 250,000 tonners with 75' depth.
France	Le Havre	46'	80,000	Expansion underway for 250,000-300,000 tonners.
France	Dunkirk	46'	80,000	Expansion underway for 300,000 tonners with 80' depth.
France	Fos	63'	120,000	Depth up to 77' in the near future.
Belgium	Antwerp	45'	80,000	
Spain	Gijon	44'	75,000	Facilities under construction to handle 120,000-150,000 tonners.

Table 4

Senator **Johnston**. Mr. Chairman, as opposed to this picture, which is very graphic, when you look at the world and see everybody else who has them, there is not a single east coast or gulf coast import which can accommodate deep-draft colliers. Moreover, the small U.S. colliers are aging. Our ports are clogged. There can be up to a 3-month wait in Hampton Roads, and a 3-month wait even with a small collier can cost $500,000 just for one shipload. That is for a small coal collier.

The same thing is true. We don't have the waits in the Port of New Orleans, but it is a very difficult situation.

Now, Mr. Chairman, my bill, S. 828, cosponsored by Senator Long, Senator Heflin, and Senator Denton, would do a number of things which, Mr. Chairman, must be done.

First of all, it would provide for a 55-foot channel in the Ports of Norfolk, Mobile, and New Orleans, recognizing, of course, that Baltimore is already authorized. Now the first question and the biggest problem we have here is why do you pick out these three ports? And people look at me and say, "Yes, Bennett, I know Louisiana because New Orleans is in Louisiana." I confess that did pique my interest a little bit since it happens to be in Louisiana.

However, there is, as you know, Mr. Chairman, a process you have to go through to authorize any port, and it is a process that takes from 2 to 6 years. That is the traditional time it takes. You have to have an economic analysis, including a cost-benefit ratio. You have to have the engineering feasibility studies done, which are extensive studies involving preengineering. And you have to have that very extensive Environmental Policy Act process involving an EIS, or an environmental impact statement.

Now with respect to these three ports, Mr. Chairman, they had all gone through this process and it is complete all the way up to the Division of Engineers' status. I think the chairman is familiar with how the process proceeds. But with these three ports it is complete all the way up through the Division of Engineers, and in some cases even further than that.

The other ports, on the other hand, are in the very early stages of this process, just really beginning the process. However, as I will explain in just a minute, we do generically authorize all ports.

Now what we provide, Mr. Chairman, is within 1 year the Chief of Engineers shall submit to the Congress a final EIS which shall include any statutory recommendations he has with respect to the Clean Water Act, the Fish and Wildlife Coordination Act or the NEPA process. So he bundles up in 1 year after this completion that final EIS and those recommendations to us.

The legislation provides that unless the Congress passes a joint resolution within 60 days in effect going against that recommendation, then it shall proceed. In effect, this authorizes the three ports and provides that they shall proceed forthwith, because we know what the engineering is, we know what the cost-benefit is. With the Port of New Orleans, I might add, it is 8.5 to 1. That is without considering the latest impetus for steam coal. We have an environmental impact statement. So it provides we get on with the business and move on out.

Now we also provide, Mr. Chairman, for an expedited procedure for judicial review. The environmental impact statement shall not be subject to judicial review except under the conditions filed, that is, in the U.S. district court where the improvement is located. They have got to file within 60 days. We provide for time limits. We provide for the expedited Federal permits and for construction and maintenance, and we provide for a system under which court review will be expedited. We provide, for example, for no injunctive relief except as part of the final court judgment because if you have court injunctions in these cases they are going to tie up the whole process for a period of years.

As far as the financing is concerned, Mr. Chairman, these three ports can be financed within the present Corps of Engineers allocation of about $1.5 billion of their budget. In the Corps of Engineers budget, construction general is the line in the budget. It has been $1.5 billion. We can finance these three without increasing that. How? Because it will take about $200 to $250 million a year to fund these three ports incrementally, and the other projects are being completed. Tenn-Tom, for example, will be completed and be phasing down in its construction allocation while these ports are ready to come on line.

The time for completing these three ports would be about 4 years from the time we enact the legislation, as opposed to 8 or 9 years, or possibly even more, if we don't enact an expedited relief.

Now, Mr. Chairman, let me just say a quick word about the alternatives, this user fee legislation. Now quite frankly we can afford to pay in the Port of New Orleans a user fee, with a cost-benefit ratio of 8.5 to 1, or better. If you want to turn over the Mississippi River to the State of Louisiana, let us run it, I am telling you we can raise the revenue to do whatever you want us to do or whatever we want to do. But it is not going to work, in my judgment.

First of all, you run headlong into the Constitution. I am not going to give you a long constitutional argument. I don't have to. Just let me quote from article I of the Constitution, section 8: "All duties, imposts, and excises shall be uniform throughout the United States." And section 9: "No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of the other." What does that mean? It means very plainly that you can't give New Orleans the duty or the right to enact a duty, an impost, or an excise when you don't give it to other States. So if you put a uniform tax on all over the country, then you are going to have the Port of San Francisco, or let's say the Port of Los Angeles, which already has a deepwater harbor, paying for the Port of New Orleans. And that is not fair. And if you try to give preference to one port over another, you are going to run into the Constitution.

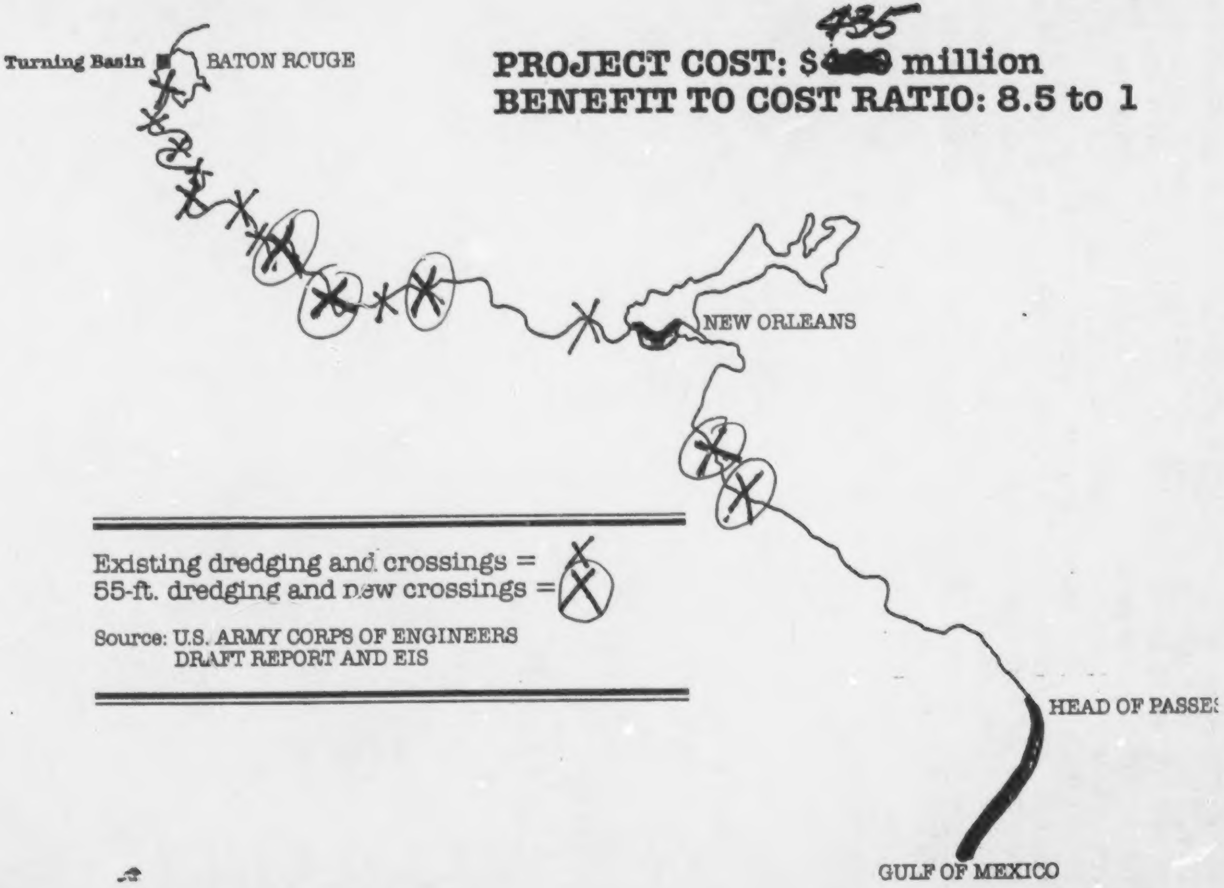
One thing is clear, one thing is very clear. It is going to be productive of years of litigation—years of litigation.

And why are we doing this to ourselves? Is it that our port improvements over the years haven't worked, haven't paid off, have been a bad investment? Oh, no, they have been marvelous investments for the American public, the American consumer.

Now, Mr. Chairman, I would like to show very quickly some charts here, and they relate to the Port of New Orleans but they are illustrative of what can happen throughout the country.

This shows what we plan to do, Mr. Chairman, what the Corps of Engineers' plan is. Their design studies are to dredge down here from Head of Passes to the Gulf of Mexico. It is now maintained at 40 feet; it would have to be dredged to 55 feet. As you see, the blue marks are the passes up river that would have to be dredged. The red marks are the existing dredging and crossings. The rest of the river up above that bottom part is presently well below 55 feet. The river in some places is well over 100 feet deep. So it is just in these crossings or bends where you have to dredge and maintain that dredging. And this is true all the way from New Orleans to Baton Rouge. So we would have an enormous area for coal exports with that dredging.

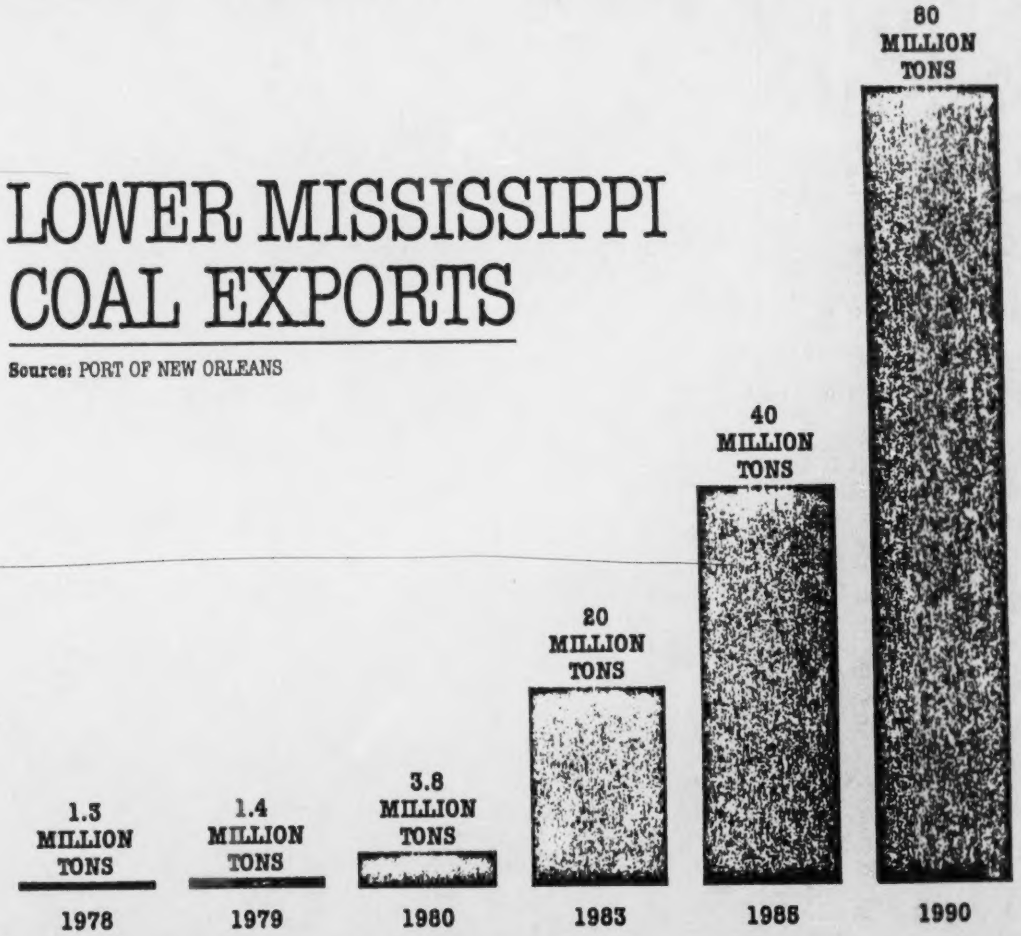
PROJECT COST: $~~4[illegible]~~ 435 million
BENEFIT TO COST RATIO: 8.5 to 1


Turning Basin
BATON ROUGE
NEW ORLEANS
HEAD OF PASSE
GULF OF MEXICO
Existing dredging and crossings = X
55-ft. dredging and new crossings = ⓧ

Source: U.S. ARMY CORPS OF ENGINEERS
DRAFT REPORT AND EIS

Senator JOHNSTON. The project cost, as you can see, is $435 million as estimated by the corps, and the cost-benefit ratio is 8.5 to 1.

Now these are just the Lower Mississippi coal exports showing our capacity. Look how that has the ability to build, where we just barely scratch the surface on this large port. By the way, the Port of New Orleans is now the largest port in the Nation and one reason it is growing is that you have got such enormous areas for wharfage, I mean all the way from New Orleans to Baton Rouge—80 million tons can be exported by 1990.

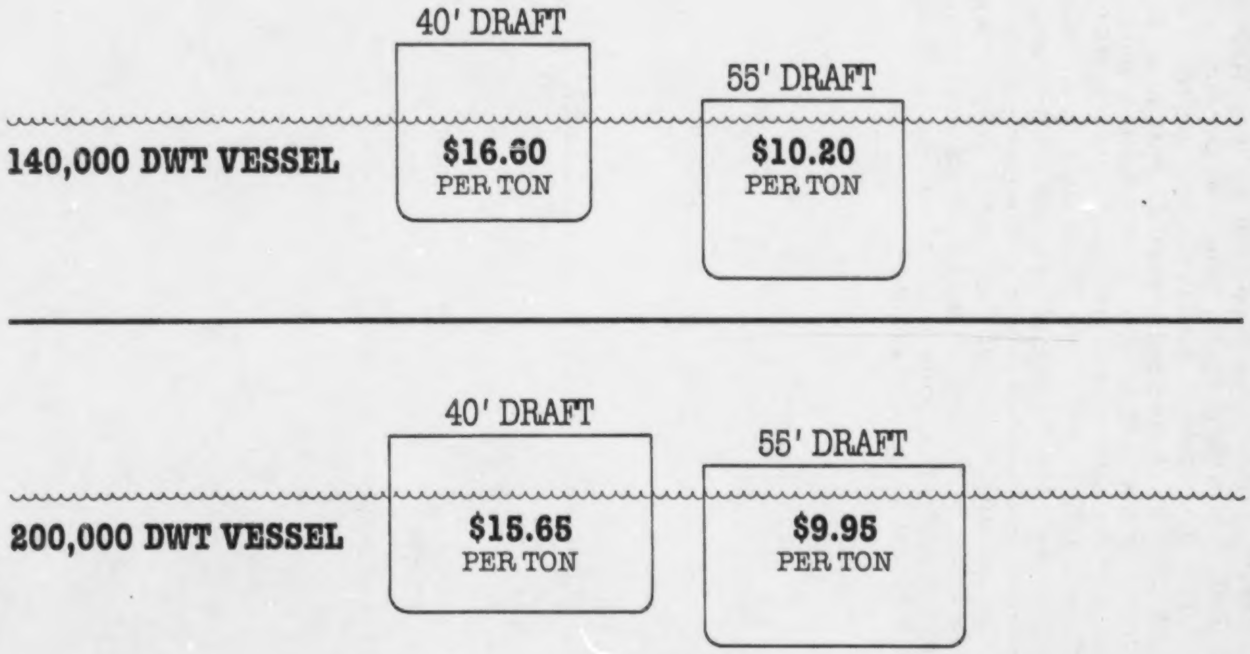


LOWER MISSISSIPPI COAL EXPORTS

Source: PORT OF NEW ORLEANS

Now these charts are very interesting, Mr. Chairman. It shows you the savings from these deep-draft colliers. With a 40-foot draft and 140,000 deadweight vessel, your cost per ton is $16.60. With a 55-foot draft it is down to $10.20. Or you can see the same picture with the 200,000 deadweight vessel; it goes from $15.65 a ton to $9.95 a ton. What that means, if you recall a moment ago I said present exports delivered from the United States are 20 to 30 percent more than they are from Australia, Poland or South Africa, but with these large, deepwater draft vessels we would be very competitive. That is why the French and the Finns and the Japanese and all the rest of them want to know whether we are going to build our 55-foot channels. If we are, then they get the coal at the best price from the United States. If we aren't, they aren't. It is just as simple as that.

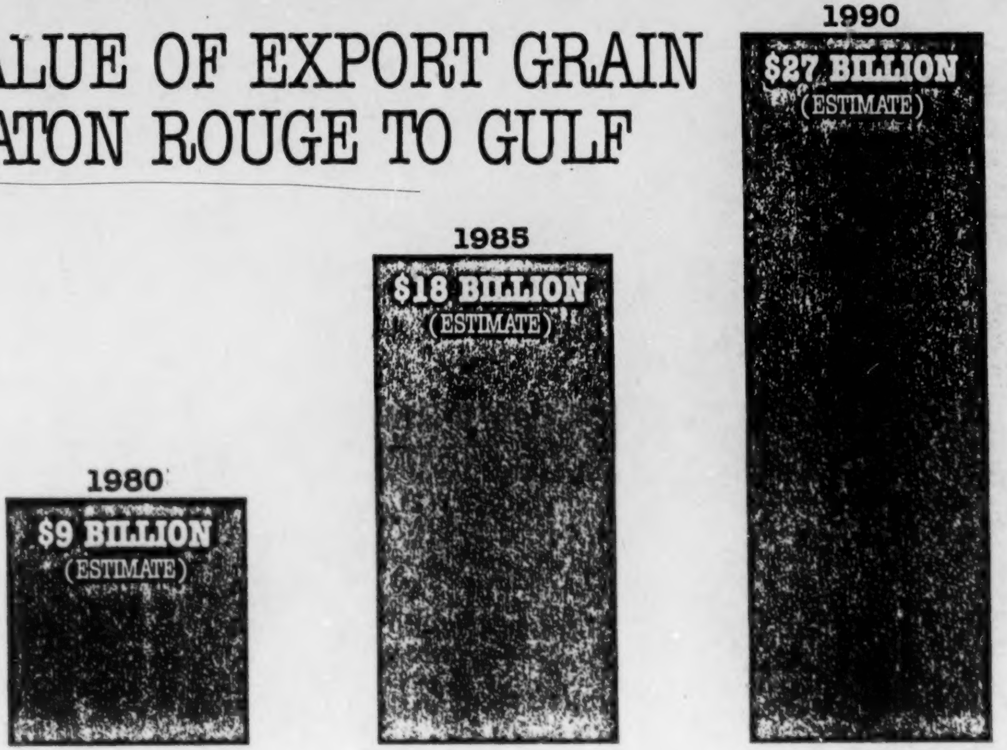
COST OF TRANSPORTING COAL FROM BATON ROUGE/NEW ORLEANS TO EUROPE



Source: Peabody Coal Company

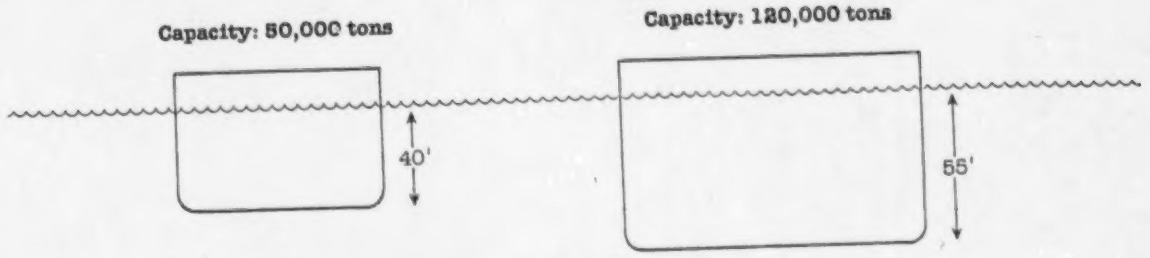
Senator **Johnston**. Now we have talked about coal, but let me just mention grain, because some people in Congress have a peripheral interest in agriculture. The value of grain exports from Baton Rouge to the gulf—and this is the largest grain-exporting port in the world—was $9 billion in 1980. It will be $18 billion by 1985, $27 billion by 1990. This is where all the grain comes and it is going to go out the Port of New Orleans no matter what we do. But if you will remember what we saved on the coal, you are saving the same amount for grain. The annual transportation savings by 1990 using these deep-draft vessels is, for grain, $700 million a year and for coal $450 million a year.

VALUE OF EXPORT GRAIN BATON ROUGE TO GULF



PORT OF NEW ORLEANS, ▶ "U.S. Coal Export Opportunities and the Critical Need for Deepening the Lower Mississippi River Channel."

STRAIGHT LINE PROJECTION BASED ON PAST TEN YEARS ACTUAL EXPERIENCE.



ANNUAL TRANSPORTATION SAVINGS BY 1990 USING DEEP DRAFT VESSELS:

GRAIN: $700 million* COAL: $450 million**

*Based on transportation savings of $5/ton or 14¢/bushel
**Based on transportation savings of $7/ton from New Orleans to Europe

Note: In 1979, 3,000 deep draft vessels transited the Mississippi River. This represents about 20% of all vessels that year. The present 40-ft. draft prohibits these vessels from realizing their economic potential in handling cargo from the U.S.

Senator JOHNSTON. Now, Mr. Chairman, when you talk about user charges, I understand the attraction, I know about the balanced budget—I am going to go from here to the Budget Committee—it is not really a very appropriate place to put a tax on. First of all, you have this problem with the Constitution, the ports' preference clause, how you prefer one port over another, or if you don't prefer one port over another how you get those that don't benefit to pay for those that get it. Well, another thing to remember is that the port itself doesn't get all that much out of having a deeper capacity. They get enough so I am interested in it and I am here to testify, and I have my port people back there. Don't get me wrong, it is a net affirmative thing. But most of the good, most of the benefit from a 55-foot channel, in whatever port you had, would go first to the coal miners. I mentioned a moment ago we have 20,000 idle coal miners in the country now, 100 million tons of capacity that is not being used. That is probably the greatest beneficiary. In terms of grain, you save $5 a ton, or 14 cents a bushel, on transportation costs on grain with a deep-water port. Now the Port of New Orleans doesn't get 14 cents a bushel. We, in effect, get the ability to ship it through out port, which provides some jobs to some stevedores, and you have to build port facilities and all of that produces economic activity, and we like that. But that 14 cents a bushel goes mainly to the producers—all those farmers in the Midwest and all those coal producers all over the great coal-producing areas of our country.

So if you really tried to put that tax on those who benefited most, it wouldn't be on the port. And indeed if you put it on the port, the port would try to pass it on to somebody else. But it would be on those upstream.

Let me just close by saying, Mr. Chairman, we have seen in this country the automobile industry, the steel industry, and other industries go by the board, become noncompetitive, lose business to Europe and to Japan. It was just as clear why that happened as the noonday sun on a cloudless day. We didn't put in the right equipment when they did and now we are wringing our hands as to why it is taking place. Mr. Chairman, the same thing is taking place with respect to coal. Look at these charts. This is not fiction. They are coal exporting and importing ports, some 50 in number all over the world. Our coal is not competitive unless we have the deep-water draft built. They are getting ready to make the contracts now. Now the question is do we want the business in this country or don't we? Do we want to make America energy independent and balance our payments and employ those miners and save that 14 cents a bushel on grain or don't we? Why in the world we should be here talking about something that is going to take years as user fees to effect and agree on—and the administration hasn't even sent down a plan. I mean they talk about a user fee as if it has been some concept that has been finely honed, analyzed by the lawyers and found to be legal. It is not. They don't even have a proposition to send down. And I have not seen one competent lawyer who says whatever it is is legal. And it is a cinch if we go that route, Mr. Chairman, it is going to be probably a decade before we ever get it done. Probably some other President will be in here to tell us how to do it. I say we can't wait. We know how to do this. It pays off 8.5 to 1 on a cost-benefit ratio. I plead with you, Mr. Chairman and the distinguished Senator from Texas, we need to get moving. We can authorize these ports and the others and get them built and do it this decade with this legislation, and I implore the committee to do so.

Thank you, Mr. Chairman.

Senator **Abdnor**. Thank you, Senator, for your very impressive presentation. Your figures and facts are very useful. We have some new figures here today that we didn't have in the previous day's hearings. We are going to have to spend a lot of time on this issue, and we are waiting to hear the administration's plan. I am not going to sweep the user fees under ports. Last Friday we did hear testimony from a number of ports, including New Orleans. I believe it is fair to say they would be able to finance the full cost of construction of 55-foot harbor projects in some cases if many of the procedural delays were eliminated. Almost every witness we had before us hammered away on these procedural delays, and we know that is something we have got to try to work our way out of and speed this up.

I know you can argue the other way, but in the event that fees were proper and constitutional, what is your assessment in the case of New Orleans? I think you pointed out to us here the difference in dollars. A ton of coal is almost $6 a ton. Do you think they could collect a user fee, that if it was constitutional, that New Orleans could go ahead on their own? I mean we have heard testimony that some ports could build it on their own.

Senator **Johnston**. Yes; there is no question about it, Mr. Chairman, we can pay for this port in New Orleans. We have enough traffic going through there to pay for it. If the committee insists on going in that direction—and I hope you don't, and I think by the time you get into that and all those legal snares you will probably think better—but if you do, I would at least hope you come up with a scheme that says go ahead and build the port and any legal attack on the constitutionality of this user scheme won't delay the construction, that you proceed with construction. In fact, on the thought that you may require some kind of user fees, we have frankly worked on a scheme to get that done, because litigation is inevitable and I don't see how you can get around what seems to me very clear provisions of the Constitution. I have never heard any serious lawyer say you could either, unless you make it a tax on everybody—and that is not fair. But if you do and you want to go in that direction, and I will try to help make it work if you want what little advice I can give, but please I implore you don't let them enjoin the project during the litigation, but provide that the construction proceeds and then worry about the constitutionality of it later.

Senator **Abdnor**. Thank you very much.

Senator Bentsen, do you have any questions?

Senator **Bentsen**. Thank you very much, Mr. Chairman.

That is one of the best presentations I have heard in quite a while. I congratulate you on it.

Senator **Johnston**. Thank you.

Senator **Bentsen**. I think your graphics are good, and you made an eloquent case. I might say Louisiana has had some recent experience on the user tax and the question of constitutionality.

Senator **Johnston**. That is right.

I didn't design that one, Mr. Chairman.

Senator **Bentsen**. You are talking about New Orleans, Mobile, and Baltimore, and none of those happen to be in Texas. That poses a problem, not just for Texas, but I think for the entire Nation because we can make cases for the merits of particular ports, but you have an incredible competition for funds today. The part of your bill which talks about expedited procedures, I am very sympathetic to that. The Port of Galveston is the only one of these ports that has its 404 permits and is ready to go to deepening. But I don't see the allocation of funds for Galveston or New Orleans or Baltimore or Mobile on a 100-percent basis anymore. I think that day has passed, and I think we have to face the realities insofar as the competition for the available resources we have.

I think the expansion and deepening of these ports is a high priority. I think you are absolutely right on that. I think they are good investments for our country, but there are so many good investments for our country. I think part of the winnowing process is how much the local interests are ready to participate and put up their own money and try to help. I have been convinced of that fact. I have introduced legislation, Senator, that tries to cut through all this maze to get the job done. It says that a port can do it itself and then if it qualifies with all the conditions, of course, corps permits, congressional approval, et cetera, contingent on all that, it can get a conventional pay back. In this instance I am talking about 75 percent, but I wouldn't be surprised if we finally end up talking about 50 percent. But if they really believe they can move ahead, if they are really convinced of the economics of it, they can move ahead. Now that is a piece of legislation that I have introduced to be considered along with other pieces of legislation by this committee, along with your own piece of legislation. Would you care to comment on that?

Senator **Johnston**. Yes, I sure do.

First, let me say with respect to the bill, we name these three ports, but we also provide generic authority which provides exactly the same procedure so that as the corps finishes the NEPA studies, the EIS, the preliminary engineering and the economic studies on each of the ports—Galveston and the rest—then you provide the same procedure. They submit the final EIS with their recommendations to Congress, and then it shall proceed unless the Congress vetoes within 60 days. I mean there shall be an authorization unless Congress vetoes within 60 days. So the only advantage we have here for the three ports is they do have a final EIS, and I think what we need to do in terms of the expediting of these three ports, as well as all the rest, is submit that EIS to Congress and not go through that circuitous route that we presently go through where all you have is years of litigation.

Now with respect to local interests, Mr. Chairman, I really don't apologize for having this done by the Federal Government, as it has been done for the last 200 years.

Senator **Bentsen**. Senator, no apology. I think investing in our ports is a good one, but we have so many priorities, and limited funds.

Senator **Johnston**. Let me say, though, that there is local investment, there is local cost participation in ports. Indeed, the principal amount of those ports has to do with the land furnished on the site, in this case the river, to build the port installations, the coal handing equipment, the servitudes to put the spoil, all of those things involve more investment in dollars than does the dredging. We have billions and billions of dollars invested already in the Port of New Orleans, many billions, and we are talking about $435 million here.

I will say that if you insist in spite of--I know you don't want to do it and I don't want to do it either, we can work it out. I mean we can afford it in the Port of New Orleans. If anyone can afford it, the largest port of the Nation, New Orleans, can afford it. All I ask is if you insist on doing it, in spite of what I think is better judgment, then let's work together to design a system that says put on their local tax, but the constitutionality of the local tax shall not affect either the pace of work or the question of whether you complete the work. And we can do that, you can. That is just a legal problem that is easily solved.

Senator **Bentsen**. I did not mention the user tax.

Senator **Johnston**. Well, I mean it is all the same thing, whatever you call it—user tax, excise tax, impost, duties.

Senator **Bentsen**. Thank you, Mr. Chairman.

Senator **Abdnor**. Thank you. This is interesting; we would love to keep going. You have a budget meeting and we have a number of witnesses. So we thank you, Senator Johnston, for your very excellent testimony.

Senator **Bentsen**. Mr. Chairman, may I make an opening statement?

Senator **Abdnor**. Go right ahead.

OPENING STATEMENT OF HON. LLOYD BENTSEN, U.S. SENATOR FROM THE STATE OF TEXAS

Senator **Bentsen**. Thank you, Mr. Chairman.

We will be getting on with the discussion on inland waterway user fees, and that is an issue that has been before this committee in the past. We enacted legislation to initiate user fees in the form of a fuel use tax, which became effective last year. In the course of passing that prior legislation, we requested that the executive branch conduct a study, that study to determine the effects on commerce of the fuel use tax. That study ought to be completed later this year. Now it has spent a lot of hours evaluating that issue—and it is a complex economic problem, in part involving the economic factors affecting different modes of surface transportation. Several colleagues and I have urged the Senate to await the results of that study authorized in Public Law 95-502 before enacting new legislation that would substantially increase those fees.

We are going to hear testimony today that addresses the question of Federal subsidies to competing modes of transportation. That is clearly a tough issue. There is a wide divergence of opinion. That is a situation that has resulted from over 100 years of action on the part of the Federal Government in the private sector, and as we consider this legislation I would urge my colleagues to recognize what has been done over 100 years would be very difficult and very precipitous to undue over 1 or 2 years. If we act too drastically, you are going to see some major economic disruptions, and you are going to see that carry through right to the consumers. I would strongly urge we do not carry out a precipitous action in this without fully having the benefit of the study that has been made under the direction of Congress.

Thank you very much.

Senator **Abdnor**. Thank you, Senator Bentsen. We are all interested in seeing the completion of that study because we know that it is not going to be a simple solution to coming up with an equitable program here.

Our next witness is Mr. Richard Walsh from the Department of Transportation. Mr. Walsh is director of the study that will estimate the impacts of various levels of proposed waterway user fees. And, Mr. Walsh, I understand you have met with our staff to brief them on the preliminary results of the study. We thank you for your cooperation in meeting with the staff. I am certain we will request a number of briefings on your study results throughout the summer, and we look forward to continuing a good working relationship with you and your staff.

Mr. Walsh, we certainly welcome you to the committee today and are looking forward to hearing your testimony. As I said, I am sure this is the first of several appearances. We thank you for coming here.

STATEMENT OF RICHARD F. WALSH, DIRECTOR, OFFICE OF ECONOMICS AND PUBLIC INVESTMENT, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY ERIC BRESHERE, DEPUTY DIRECTOR

Mr. **Walsh**. Thank you, Mr. Chairman. I am accompanied here today by Eric Breshere, who is my deputy.

Mr. Chairman, members of the committee, in my prepared remarks today, I want to address three matters: First, the role of cost recovery in national transportation policy; second, the status of the section 205 waterway user charge study; and finally, the likely impacts that various user charge approaches could have on existing traffic patterns and, hence, on waterway shippers, waterway carriers, and others most directly affected.

As you know, the administration has proposed legislation for the recovery of Federal costs on the improved inland waterway system of the United States from the commercial users of that system. Let me summarize the chief features of the administration's bill's chief features as background for my discussion of why it deserves your early and favorable consideration.

The bill provides for the recovery of the Federal Government's costs for operating and maintaining navigational facilities on inland waterways. We are proposing to recover 100 percent of operations and maintenance costs and 100 percent of the cost of constructing new facilities. We do not propose to recover any past expenditures for projects completed prior to October 1, 1981. In recognition that these waterway improvements and services benefit other groups besides commercial navigation interests, the Federal cost recovery goals for projects authorized only for navigation have been arbitrarily reduced by 10 percent, a generous provision in view of the fact that few, if any, of these improvements or services would ever have been provided were it not for the needs of commercial navigation.

Many different types of fees or charges could be used to recover the Government's costs; for example, fuel taxes, lockage fees, license fees, or weighbill charges based on ton miles of movement. There are other possibilities as well. The administration's bill provides that the Secretary of the Army will establish the actual fees and charges to be used, following an informal rulemaking process. In doing so, he will consult with the Secretary of Transportation who will provide advice from the viewpoint of overall national transportation policy. The Departments of Commerce and Transportation will also advise on the impacts of different user charge approaches, drawing on work that has been done in the study mandated by section 205 of the Inland Waterway Revenue Act of 1978. In developing these user charges, the Secretary of the Army will strive to strike a balance between the goals of matching the user charges with the actual costs of the individual river segments on the one hand and avoiding excessive disruption of existing traffic patterns on the other.

The recovery from users of Federal costs of building and operating public facilities has long been established and accepted as sound public policy, especially in the field of transportation. But the Congress and the executive, in law and in Executive order, have again and again confirmed that policy. In most modes of transportation which make use of federally financed facilities—the aviation and highway modes, for example—the cost recovery principle has long been honored.

The exception, of course, has been the inland waterway system. Despite repeated proposals, dating back more than 40 years, cost recovery did not come to this mode until 3 years ago with the enactment of the Inland Waterway Revenue Act of 1978. This law provided for a fuel tax on commercial barge operations, starting at 4 cents a gallon last October and rising to 10 cents a gallon by fiscal year 1985, and it also created an Inland Waterway Trust Fund. Although its recovery level is modest in relation to the level of Federal outlays, this act was a particularly important step forward in that it established that the principle of cost recovery should apply here too. To underscore this, the Congress directed that a study be undertaken to provide information on which to base a permanent cost recovery system for inland waterways.

Two major concepts underlie the cost recovery principle. One has to do with the matter of fairness or equity in the distribution of the Federal tax burden. It seems to be only simple justice that profitmaking businesses should pay for the facilities they use rather than having the general taxpayer bear those costs. There is just no good reason for Government, that is, the taxpayer, to subsidize such operations, unless it serves truly overriding national objectives. In the case of a profitmaking, freight-carrying mode, it is difficult to see what that objective could be, save for that of regional development. However, no waterways currently under construction have been specifically authorized for regional development.

The other basic concept relates to the effective functioning of the free marketplace as the mechanism which should decide how much and which traffic should go by each mode. When not distorted by subsidy or arbitrary regulation, the marketplace lets shippers decide how much of which commodity they will ship by which mode, with decisions based solely on each mode's respective cost and service characteristics. In order that the market mechanism be a truly efficient decisionmaking device, the transportation rates that face the shipper as he makes his decisions must accurately reflect the costs of each mode. To the extent that any portion of a carrier's costs are picked up by the Federal Government, the rates that he quotes will understate the true cost of moving goods by that mode.

Whenever part of the true costs of any mode becomes masked by subsidy in this way, inefficiencies begin to occur. Real efficiencies in other modes are lost as traffic shifted by the artificially low rates of the subsidized mode actually moves at greater total costs.

I am well aware that many critics of the administration's bill will agree to these principles but feel that they are not being applied consistently and evenhandedly to all modes. Indeed, some have argued that the waterway operators are being singled out for especially harsh treatment while other modes would continue to be subsidized. This is not the case. As far as the freight carrying modes are concerned, the administration has only one policy—100-percent cost recovery. Let me review this position with respect to the waterways' competitors, that is, the railroads and the motor carriers.

The Federal highway program has been on a 100-percent cost recovery basis since the 1930's. Admittedly, there is an open issue in the financing of the Federal highway program, and that is whether the 18-wheel, diesel tractor-trailers are paying their fair share. Many argue that owners of automobiles and light trucks are paying too much, while heavy trucks are paying too little, of the highway system's costs. However, the administration is now completing a congressionally mandated study of the allocation of Federal highway costs, and recommendations to the Congress on this issue can be expected early next year. If it is found that the heavy trucks are being cross-subsidized by other highway traffic, rest assured that an increase in user charges for the larger trucks will be forthcoming.

The policy toward the freight carrying railroads is equally clear, and that is "no subsidy." To this end, the administration is pushing hard to terminate any subsidy to Conrail. We are optimistic that the Congress will agree and that within a couple of years Federal subsidies to freight operations in the Northeast will disappear.

Over the last few years, some Federal financial assistance in the form of loans has been extended to certain marginal, Midwest rail carriers. Some of these loans may not be fully repaid. Nevertheless, the policy goals of these loans are fully consistent with the cost recovery principle. They were made with the objective of facilitating and speeding up the reconstruction and rationalization of an oversized rail system. Indeed, the Government strongly resisted efforts to provide for continued operation of unneeded portions of the Rock Island and Milwaukee Railroads. The Department's whole aim in the Upper Midwest has been to put the rail system on a self-sustaining basis so that permanent Federal subsidies will not be required.

Let me make one final point about the railroads. A number of people have raised questions about past Federal aid to the railroads in the form of 19th century land grants, emergency loans, grade crossing programs, and so forth. But I submit that this is not a particularly helpful way to view this matter. At one time or another every mode has received substantial public support when the public policy objectives of the day, for whatever reason, was to promote and encourage the growth of that mode. The opening of the West, the economic development of depressed regions, emergency transitional assistance to maintain vital transportation services—whatever the wisdom of the specific decision—these were all legitimate public policy objectives that didn't and shouldn't have had anything to do with the principle of full cost recovery over the long run for all modes.

Today, we are no longer in a developmental or promotional posture with respect to any mode.

Let me repeat, and underscore, that the proposal at hand does not ask for retroactive recovery of past outlays or subsidies for completed projects. In the administration's waterway user charge bill, the cost recovery goal applies only to current and future expenditures for operations and maintenance and for new capital outlays amortized over the lifetime of a project.

In setting cost recovery policies across all modes, the only useful and fair thing to do is to look ahead and establish consistent and equitable policies for the future, and not try to sort out who got what from whom in the past and whether the result met some idealized standard of intermodal equity.

In summary, the simplest, most straightforward, evenhanded policy will serve us best in the long run: full cost recovery from all the competing freight transportation modes; no permanent subsidy for any of them; and the quickest possible shift to this status as can be achieved.

Let me now turn to the status of the section 205 waterway user charge study.

In the Waterways Revenue Act of 1978, the Congress directed that the Secretaries of Commerce and Transportation undertake a study of waterway user charges and report back by September 30, 1971, as to its findings. Two contractors were engaged to assist in the collection of data, surveys of waterways carriers and shippers, and the anlaysis of various types and levels of user charges.

This work is now nearing completion. The data collection and survey phases are over, and various user charge approaches are now being analyzed in terms of their impacts and effects on a wide range of variables. The Department of the Army has been working closely with the study team and the study contractors in these final phases.

The preliminary model runs of various user charge scenarios have been made, and we will be refining them over the next few weeks.

Looking to the future, we expect to have a draft final report of the study ready for circulation and review within the executive branch by the end of August. The report should be in the hands of the Congress by the statutory reporting date, that is, September 30, 1981. We will, of course, be delighted to share all useful interim results of our study products with the committee and its staff to facilitate your timely consideration of our legislative proposals.

Let me now turn to the preliminary estimates we have so far been able to make of the impact of user charges on waterway traffic. Let me emphasize that the results of the analyses we have been conducting for the past year are just now becoming available. The figures I will be offering you are based on the first series of computer runs. I am pleased to share this information with you, but I must note that changes could occur in the next sets of computer runs. Further, we do have flexibility to change some of the assumptions on which these calculations are based and, working with the Department of the Army, to analyze several different user charge alternatives or combinations thereof.

The immediate recovery of 100 percent of Federal operations and maintenance costs for inland waterways does produce quite noticeable changes in modal shares. Nonetheless, the future volume of barge traffic will be considerably higher than it is today under any user charge scenario. Let me explain why this is so.

Over time, barge traffic can be expected to grow at a fairly steady rate. This will be true with or without user charges, and after a period of adjustment the rate of growth should be the same in both cases. User charges do cause shifts in traffic between modes and thereby will reduce the traffic base of the waterways from which future growth will occur, but that growth will continue to take place. In the scenarios we have examined so far, the expected 1990 barge traffic will be somewhere in the vicinity of 40 percent greater than in 1977, even with full cost recovery.

So far, we have not done the computer runs that estimate the regional economic impacts of user charges. We have, however, learned enough from the first runs on modal traffic shifts to offer some preliminary conclusions on the ultimate economic impacts. The two most important commodities moving on the waterways are coal and grain. Coal movements appear to be only slightly affected. However, it does appear that there will be definite impacts on some grain farmers, especially those located near the river. The removal of the subsidy on transportation that these farmers have long received could add something in the range of 3 to 10 cents, depending on the farmer's shipping location, to the costs of shipping a bushel of grain from the upper Midwest to New Orleans.

A major factor in estimating the changes in modal shares that result from user charges is the assumption that one makes about the response of the railroads to barge rate increases. Our early computer runs assume that the railroads will not raise their rates at all in response to any user charge induced increase in barge rates. Using this assumption maximizes the estimate of likely modal shift. It seems virtually certain, however, that it is not a realistic assumption, and we will also be making model runs which assume higher rail rates. While we have no way of predicting with certainty what the railroads' likely response will be to higher barge rates, we do believe it will be somewhere between a fully matching increase of all water-competitive rates and no response at all. Thus, to the extent that railroads hold rates where they are in order to gain traffic and modal share, the impact on shippers is minimized, although the effect on carriers is the greater. In this connection, let me note that there is currently more than ample rail hopper car capacity in the Midwest to move any likely increase in grain traffic. Over 25,000 jumbo covered hopper cars are currently idle and many rail carriers are offering discounts in order to secure traffic.

In assessing the near-term impacts of user charges, it is important to look at the assumption that we have made regarding the extent to which barge operators pass through the charges to shippers. In our analysis we have assumed 100 percent passthrough. We believe this is the only reasonable assumption to make in an impact analysis of this type. We also believe that it is the right assumption for the medium and long term. For the first few years, however, we think it is unlikely that the barge operators will actually pass through 100 percent of the increased costs from user charges. We expect that barge operators would probably absorb some portion of the user charges in order to hold up revenue levels, albeit at a reduced profit. With rising traffic revenues over time, and the opportunity to rationalize the barge fleet, operators would eventually be able to pass through all of the user charges. Thus, the effect of this assumption that user charges are all passed on is to overstate the amount of traffic shifted in the near term.

Let me discuss a couple of factors which may tend to reduce the impact of user charges in the longer term. With respect to grain traffic, unit train facilities are likely to be built closer to the river in order to take advantage of lower rail rates for shipment either to Houston or to west coast ports. The effect of this would be to increase the number of grain shippers able to take advantage of unit train discounts.

Rising traffic volume over time will also soften the impact of user charges. Other things being equal, the more traffic there is on the river, the lower the user charge required per ton of the waterway traffic. Major new investments in the further out years that are not cost effective would, of course, have a tendency to offset this effect. Investments that meet a rigorous benefit-cost test would increase traffic.

In summary, let me emphasize again that we are working with preliminary results and there could well be changes as we go forward. The overall picture that is emerging is that full cost recovery user charges do not have truly drastic impacts, but that there would be some definite and noticeable changes in traffic patterns and shipping costs. Some grain shippers will definitely feel the higher costs. However, a growing volume of grain will continue to go into export on all modes. Coal traffic, as noted earlier, will be only slightly affected. Overall, the economy is gaining as the new traffic patterns reflect more efficient use of the transportation system.

Before closing, let me say we are glad to have this opportunity to make this information available to you. We will be pleased to make more detailed information available to the committee and to keep the staff informed as the study continues to develop.

Thank you very much. I would be happy to answer any questions you have.

Senator **Abdnor**. Well, thank you, Mr. Walsh. I know this is just the beginning of a number of sessions we will be having with you, I am sure, as your study progresses, because I know there are still a lot of unanswered questions that will probably be coming up in our minds.

I was interested a little earlier just in your statement when you referred to the subsidies given to railroads and those given to the barge industry. In your mind, what are some of those subsidies? I think you listed Conrail, but let's write Conrail off. Is that going to take care of the problem? Are there a lot of other subsidies involved with the railroads?

Mr. **Walsh**. I think the largest annual dollar amount is connected with Conrail. Another large dollar amount almost of equal size is associated with the railroad retirement fund, if you were to count that as a subsidy. There is a branch line assistance program which the administration has proposed to phase out. There are various types of loans which have been authorized by recent Congresses, and the older types of loans which are provided in emergency situations which were authorized some time ago.

Senator **Abdnor**. At the same time then is the administration looking into those pension subsidies? Are they going to do something about that?

Mr. **Walsh**. Presently, the railroad unions and the railroads, under a mandate from the Congress, are discussing proposals for financing the railroad retirement system. As I recall, they had an initial deadline of sometime last March. I do not believe that they met that deadline but are still continuing to talk. I do not know the status of those discussions, however.

Senator **Abdnor**. I am not trying to make an issue of this, but just in fairness to all the different alternatives to transportation it is something that goes through my mind. I remember when we had the legislation in the House. We had retraining written into the bills. We had directed services, as you say, and a number of other subsidies. So I was just curious. I was wondering when you are taking in the different kinds of transportation have you given thought to the coal slurry, what that will be doing? That is a viable subject we have been hearing a lot before.

Mr. **Walsh**. I am not aware of any of the coal slurry pipeline proposals that have envisioned any type of Federal financial assistance.

Senator **Abdnor**. But in the overall effect of what we do, we don't want to lose one against the other.

Mr. **Walsh**. Absolutely not. As a matter of fact, coal slurry pipelines have potential competitors for the movement of freight. We also have petroleum product pipelines which compete directly with the waterways.

Senator **Abdnor**. I was interested in traffic, this business in rates and the barges on the rivers up and down. You do feel that the barge companies will be able to absorb some of the costs, I think you said.

Mr. **Walsh**. I think in the short run our feeling is that barge operators will absorb some of those costs. Much of it, of course, will still have to be passed on. Eventually we would expect barge operations to settle at some equilibrium, and they would probably pass through all of the waterway user charges.

Senator **Abdnor**. I guess I didn't realize, being in the farming business, there was that much of an advantage by shipping by barge today. Farms in this country would welcome for a break rather than increased costs. You don't have to read many articles to find out the market prices today are such that I don't know how much more you can bite into their sales and still be able to come out with any kind of profit, which many aren't even experiencing today. But that is not entirely the point here today. I think it is pretty safe to assume that the shipper is going to have to pay the additional cost.

Mr. **Walsh**. I think the additional costs may be borne ultimately by both receivers and shippers. It depends a good deal upon the commodity involved. It also depends, in the case of many commodities, upon past investment decisions, and in the case of utilities, for example, who have made a decision to locate on the waterway and depend on waterway transportation, the chances are there will be little, if any, diversion of traffic there.

Senator **Abdnor**. Well, has your study gone in depth enough to tell us what would be the dollars and cents impact in the administration's proposal, S. 810, on the shipment of a ton of grain, say, from Minneapolis to New Orleans? Do you have any thoughts or ideas yet what the additional costs would be?

Mr. **Walsh**. I think in my statement that I alluded to the fact it would be somewhere between 3 to 10 cents per bushel; 10 cents represents what it would likely be at the head of navigation on the Mississippi and 3 cents somewhere in the vicinity of Iowa.

Senator **Abdnor**. How does that ton of grain relate to shipping a ton by railroad? Do you have any ideas on that today? Are they anything comparable, or is there just that much of a break going by barge? Is the farmer actually getting 10 cents a bushel subsidy by shipping?

Mr. **Walsh**. The farmer actually on the river enjoys a price advantage over comparable rail transportation of probably a good deal more than that. There probably isn't any level of user charge in which the farmer on the river would actually ever find it advantageous to shift to rail traffic. The farmer 150 miles away from the river has much less of a price advantage because, of course, he has to pay the price of trucking his grain on the river. At some point you have a person who is really indifferent to the cost of rail or barge transportation because they are equal to him and very small shifts in costs of transportation for either rail or barge will cause him to ship on the other mode.

Senator **Abdnor**. That is all the more reason some concern may be shown for the farmer who does live that 150 miles from the river. He does have that extra expense of trucking over there in order to get his grain to a decent market. That also is being studied in the impact?

Mr. **Walsh**. Yes, it is.

Senator **Abdnor**. I am sure you would agree that 10 cents a bushel is going to come right out of the farmer's pocket.

Mr. **Walsh**. Generally speaking, farmers are price trackers and it would come out of the farmer's pocket.

Senator **Abdnor**. I may be a bit parochial, but living on the Missouri River I hope to see the day more and more farm products in the Upper Midwest make use of the Missouri. What would happen to the traffic on a river such as the Missouri with this? Do you think there is enough barge business there today that we would retain it, or simply some barge companies simply pull out?

Mr. **Walsh**. There would undoubtedly be higher costs for barge operations on the Missouri as there would be for all rivers. However, the cost allocation that has been made to the Missouri River turns out to make the level of user charges there much less than perhaps we might think they would be. That is because the formula that the Department of Army has used to allocate costs means that just 10 percent of the joint costs of the multipurpose project investments on the Missouri are allocated to navigation. So that means a lower amount to recover. Now there would be probably grain shippers who would find it advantageous to ship by rail who are now shipping on the Missouri River. There might be still other farmers who would find it advantageous now to truck their grain further to the Mississippi River rather than put it on the Missouri and bear the cost of that particular segment. All of this presupposes that we are collecting for the Federal costs on the basis of a segment-specific charge.

Senator **Abdnor**. As you make your studies, do you give consideration to the fact, and I know agriculture pretty well I guess, that these extra costs that would eventually be placed on the farmers, it is not quite the same as in the coal industry and others. Others just automatically raise their prices, and the farmer in this case has absolutely nothing to say about the market. He couldn't raise the price if he wanted to. We just saw the other day a settlement in the coal contract where I think over the next 3 years labor was going to go up almost 40 percent. That really wouldn't concern the coal people as much as a 6-cent cost increase in a bushel of wheat, because that comes out of the price someone is willing to pay for it. Farmers have nothing to say about costs. I am wondering whether you take that into consideration? The coal people and others would be happier to pay it than the farmer. Are you comparing how it relates? Are you giving consideration to the fact that you might be putting another 10 cents cost onto a bushel of grain that is going to come out of the farmer's pocket?

Mr. **Walsh**. Yes, sir.

Senator **Abdnor**. Is there any thought going into your studies on phasing in a program instead of just abruptly adding it on?

Mr. **Walsh**. Mr. Chairman, that is a political judgment. The usual argument that is made in favor of phasing is that you have a growing, developing transportation system. The fact is national inland waterways are a mature transportation system. They enjoy an enormous volume of traffic at an enormous transportation price advantage. They are in toto fully capable of bearing the costs that are now being borne by the general taxpayer that are being expended by the Federal Government on behalf of that traffic.

Senator **Abdnor**. I am sure the Senator from Texas would like to ask some questions, but let me ask you one last question. In your study, what weight are you giving to the costs coming from waterway user fees toward the total cost of the operation and maintenance and construction? There are other beneficiaries of rivers and water projects. Do you have that weighted in there?

Mr. **Walsh**. Yes, sir, we do.

Senator **Abdnor**. They are not entirely all being attributed to the cost of the barging industry and the shippers. You are allowing for some of the benefits like recreation.

Mr. **Walsh**. Yes, sir, where recreational benefits have been specifically provided, the cost of providing those benefits has been subtracted from the amount we would collect.

Senator **Abdnor**. What are some of the others?

Mr. **Walsh**. Hydropower, irrigation, flood control.

Senator **Abdnor**. What was the last one?

Mr. **Walsh**. Flood control.

Senator **Abdnor**. Very good. Thank you.

Senator Bentsen?

Senator Bentsen. Thank you very much, Mr. Chairman. Your line of questioning was helpful to me.

When you talk about the increase in traffic from 1977 to 1990 and say that the tonnage will be some 40 percent more, one would expect an expanding economy and these things we saw presented earlier on coal shipments, for example, and what we project in the way of grain shipments, that you are going to have increased traffic overall. But you also provide me with what the percentage of traffic will be. Will there be a change in the percentage of traffic that goes by rail or goes by intercoastal canal by barge or trucks?

Mr. **Walsh**. Yes; there would be.

Senator **Bentsen**. Now when you talk about 40-percent increase in barges, tell me what changes do you see in the allocation of traffic amongst the various modes?

Mr. **Walsh**. Senator, I think we can supply the answer to that. I do not have the figures in my head. We can also give you what is probably more significant here, what in fact would be the case of no user charges in 1990 and the case of user charges in 1990 and what the differences will be for the waterways under that circumstance.

Senator **Abdnor**. Will you yield a second, please?

Senator **Bentsen**. Yes.

Senator **Abdnor**. Is that increase attributable to the coal and grain or is it equal?

Mr. **Walsh**. It is attributable more to coal than grain. There is growth in grain, too.

Senator **Abdnor**. There will be growth in your projections in grain?

Mr. **Walsh**. Yes.

Senator **Abdnor**. Thank you.

Senator **Bentsen**. Mr. Walsh, one of the earlier estimates of the administration, as I recall, was the possibility of taking care of this return of cost by increasing the fuel tax to 29 or 30 cents a gallon. In figuring out the cost reimbursements, have you used sums that amount to the equivalent of that 29 or 30 cents a gallon? Whatever user tax you would propose, are you using numbers that approximate the 29 to 30 cents a gallon?

Mr. **Walsh**. What balance we have in terms of cost?

Senator **Bentsen**. Yes.

Mr. **Breshere**. That would be roughly what you would need today. It would go higher in the future.

Senator **Bentsen**. So we are talking about something that is equivalent of 29 to 30 cents a gallon tax as of today?

Mr. **Breshere**. For today's costs.

Senator **Bentsen**. In Public Law 95-502, we required a coordinated study, and we were asking for other agencies to participate in that, and that was the Secretary of the Treasury, Secretary of Agriculture, Secretary of Energy, the Attorney General, the Secretary of the Army, Chairman of the Water Resources Council, and the Director of the Office of Management and Budget. Could you tell the committee if your testimony has been cleared and supported by those?

Mr. **Walsh**. It has not been cleared with all of those agencies. It has been cleared in the way all administration testimony has been.

Senator **Bentsen**. I am talking about the law that requires the final coordinated study. Now you are reporting on the interim study in part.

Mr. **Walsh**. That is right. It has not been cleared.

Senator **Bentsen**. It does not have the endorsement of all of those at this point?

Mr. **Walsh**. It does not.

Senator **Bentsen**. One of the things that was suggested was that various segments of waterways might have a segment-specific fee. Do you have any indication as to the effects on those segments if that was done?

Mr. **Walsh**. Yes; we do, sir.

Senator **Bentsen**. Would you provide that to me?

Mr. **Walsh**. Yes; we will.

Senator **Bentsen**. The current law provides for a fuel use tax, and I was looking at the administration's proposal and it lists: (1) license fees; (2) charges based on ton-miles over a given segment; (3) lockage fees; (4) conjectural fees, and (5) charges based on capacity of vessels over various segments of inland water systems. Was there some reason that amongst this listing you didn't have the fuel tax?

Mr. **Walsh**. No, sir, the fuel tax was already in the present law, and the assumption was it would continue to be implemented up to the authorized level of 10 cents a gallon.

Senator **Bentsen**. There was no attempt there to favor this committee with jurisdiction?

Mr. **Walsh**. No; I don't believe so, sir.

Senator **Bentsen**. I happen to be on both committees, so I would have an involvement either way, but I was curious.

Mr. **Walsh**. It may have been in somebody else's mind, but it certainly was not in ours.

Senator **Bentsen**. I have no further questions at the moment, Mr. Chairman.

Senator **Abdnor**. Thank you, Senator.

I understand that there have been a number of other indepth studies conducted on water costs and user fees by other than just the Department of Transportation, some of them outside the Government. I was just curious. There are other studies, are there not?

Mr. WALSH. Yes, sir, there have been.

Senator ABDNOR. Have you utilized those at all?

Mr. WALSH. Yes. Probably the largest single study other than the one we are now engaged in was done by my Department and my offices through the Transportation System Center at Cambridge in connection with the Waterway Resources Council's section 80 study. That study cost about $750,000 over a period of 3 years and was widely utilized during the discussions on the Waterway Revenue Act of 1980. In addition, we have sponsored studies of waterway user charges going back at least 10 years. Other studies have been done by academicians. As a matter of fact, it has been kind of a favored topic for doctorial dissertations, and there is quite a long list of them.

Senator ABDNOR. In your own studies as you progress, did you bring in witnesses from industries to give their reaction or let them present their views?

Mr. WALSH. At the beginning of the study, we held a whole series of meetings with environmentalists, railroad interests, barge interests, what have you, to ask their advice and counsel about what was to be included in the studies and to offer them an opportunity to help us. We have gotten a good deal of that help. In addition, and relevant to your question, is the fact that one of our contractors conducted extensive surveys of waterway carriers, of waterway shippers, of utilities. This was a vital input into the analyses which I have been describing this morning. So we do have quite an outreach effort.

Senator ABDNOR. In the other studies that were done, the Cambridge one, the other ones you had access to, how did they compare with what you are coming up with? Are you having pretty much the same findings?

Mr. WALSH. They are certainly not incompatible, and whatever differences there are are quite explainable. We are dealing here with a different proposal and in a different environment. One of the problems with the previous study was that it was based almost entirely upon a pre-energy crisis environment, and obviously a lot of costs and traffic patterns that we were using could be easily questioned in light of the new situation.

Senator ABDNOR. Thank you.

Senator BENTSEN. Could I ask one more questions.

I know you don't have the specifics as to the sharing of the market by the various modes of transportation, but can you tell me if in your projections for 1990, where you talk about barge traffic increasing by 40 percent, is that an increase or a decrease in the share of the market held by barges?

Mr. WALSH. It would be a decrease.

Senator BENTSEN. A decrease?

Mr. WALSH. A decrease over what it would be otherwise without a user charge.

Senator BENTSEN. Can you give me a rough approximation?

Mr. BRESHERE. Ten percent roughly from what we have seen so far. There might be some change.

Senator BENTSEN. Can you say which mode of transportation would most benefit then?

Mr. WALSH. The railroads.

Senator BENTSEN. Thank you.

Senator ABDNOR. Thank you, Mr. Walsh, Mr. Breshere. We thank you for your appearance here today, and I am sure we will be back in contact with you from time to time.

Mr. WALSH. Thank you, Mr. Chairman.

Senator ABDNOR. I am going to call up Mr. Kucera, President of the American Waterways Operators, and the panel he has with him. We will ask you gentlemen to come forward at this time.

STATEMENTS OF ANTHONY L. KUCERA, PRESIDENT, AMERICAN WATERWAYS OPERATORS; LESTER C. BEDIENT, SENIOR VICE PRESIDENT, CROWLEY MARITIME CORP., SAN FRANCISCO, CALIF.; ROBERT W. SANDERS, VICE PRESIDENT, TURECAMO COASTAL AND HARBOR TOWING CORP.; JOHN W. LAMBERT, CHAIRMAN OF THE BOARD, CITY BARGE, INC., SOUTH ST. PAUL, MINN.; AND A. L. WILSON, PRESIDENT, DIXIE CARRIERS, INC., HOUSTON, TEX.

Senator ABDNOR. Gentlemen, we appreciate your appearance here today. We are looking forward to your testimony. I might say, too, that time is of the essence here. We have another committee meeting here later this afternoon, which crowds us a little bit. I assure you, each and everyone, your entire statement will be placed in the record, and we will ask you to summarize.

Mr. KUCERA. Mr. Chairman, I am Anthony L. Kucera, president of the American Waterways Operators, Inc. Our association appreciates this opportunity to appear before your subcommittee today to discuss the administration's proposal to recover the Corps of Engineers expenditures for shallow-draft water transportation, and we especially appreciate the fact you are holding these important hearings.

We have prepared a comprehensive statement which I would like to submit for the record, and I will simply highlight this and be brief, in honor of your request. (See p. 77.)

AWO is the national trade association representing the inland and coastal towing industry. Our membership includes 250 towing companies and over 70 shipyards and ship repair facilities that build and service these vessels.

Our industry is truly national in scope. This country's coastlines and 25,000 miles of navigable waterways bring waterborne transportation directly to 41 States. We are proud of the role we play as an integral part of our Nation's transportation system.

Barge transportation is safe, fuel efficient, cost effective, and highly productive. The bulk commodities we move represent the lifeblood of America's economy—petroleum, coal, grain chemicals and fertilizers, iron and steel, and building materials.

Total barge traffic now approaches 700 million tons annually. It includes over 40 percent of U.S. grain carried to oceangoing ports for shipment overseas. It also includes ever-increasing volumes of coal as America expands its exports and domestic consumption of this valuable resource.

With regard to the administration's proposals on cost recovery waterway user taxes, our industry strongly believes that any new fees or taxes should be considered only after the following conditions are met:

Completion of the section 205 study provided for in Public Law 95-592, which is a 3-year study effort on the effects of waterway user taxes due in September of this year;

Equitable application to all competing transportation modes in order to avoid marketplace distortions and wholesale disruption of established trade patterns;

Accurate identification of the various beneficiaries of an given Federal program, and recovery only of those expenditures for services required by the beneficiaries;

Authorization for taxing to remain with Congress and not be delegated to executive branch departments and agencies.

With me today, Mr. Chairman, are four representatives of AWO member companies, each from a different region and in some cases involved in a different type of towing operation. The gentlemen will elaborate on each of the points I have mentioned and I think you will find that they all share a common concern—the potential impact of inequitable user charges on their businesses.

Our first panelist will discuss the administration's cost recovery proposal as it relates to barge operations on the Mississippi River system. He is Mr. John W. Lambert, chairman of the Board of Twin City Barge, Inc., South St. Paul, Minn.

The second panelist is Mr. Archie L. Wilson, president of Dixie Carriers, Inc., Houston, Tex. He will provide the views of barge operators on the gulf coast and Gulf Intercoastal Waterway.

Next will be Mr. Robert W. Sanders of Turecamo Coastal and Harbor Towing Corp., Staten Island, New York, who will discuss the impact of the cost recovery proposal on Atlantic coast towing companies.

Our final panelist is Mr. Lester C. Bedient, senior vice president of Crowley Maritime Corp. of San Francisco, Calif., who will discuss west coast and Columbia/Snake River operations.

We will begin with Mr. Lambert.

Senator ABDNOR. Mr. Lambert.

STATEMENT OF JOHN W. LAMBERT

Mr. LAMBERT. Thank you, Mr. Chairman. My name is John Lambert. I am in the barge transportation business, the shipbuilding business and grain terminaling business in the Twin Cities area.

Current administration proposals to expand the scope of waterway user charges as embodied in S. 810 and amendment 32 are serious flaed in the following respect:

First, we believe that the proposed cost recovery of operations and maintenance expenditures is based on historic Corps of Engineers accounting methods which have traditionally lumped together multiple benefits derived from waterway projects under the single accounting category of navigation.

Second, based on a recent preliminary study, the Corps of Engineers has strong evidence that, despite what Mr. Walsh said of 10 percent, 25 to 30 percent of so-called navigation costs have absolutely nothing to do with waterway transportation.

Third, it is further apparent that environmental legislation of the 1970's has permitted State and other Federal agencies to impose extraordinary dredging requirements on the corps. These demands are frequently noncost effective. Voluntary or stipulated agreements are made with State and Federal units having no accountability for corps expenditures. Such activities have, in some cases, raised the cost of dredging by 20 times over 10 years. Inflation might have increased the cost 10 percent a year, but certainly not 20 times. States, cities, counties, school districts, and even private landowners have been the acknowledged beneficiaries of this extended and redundant handling of dredged material. The corps has even employed their equipment in off-channel dredging where the express purpose of material distribution was the enhancement of fish and wildlife sanctuaries. All of this goes into the head of "navigation" costs. At the same time that costs are skyrocketing, the effectiveness of channel maintenance is declining. The more money the corps spends, the worse the channel gets because of their multiple and often conflicting missions.

The Sierra Club and the Wisconsin Department of Natural Resources, to describe a couple, claim a stake in the river and have imposed their will on the Corps of Engineers with a "cost be damned" attitude. There is no risk in their doing this because they have never been held liable for the consequences of their actions. It would, therefore, be grossly unjust to accept the Administration's figures at face value and assign cost recovery to the shippers of the Midwest when they are granted no control over cost decisions. We believe this raises constitutional questions, which has been brought up earlier this morning.

Fourth, with a proper accounting of the corps navigation budget and an appropriate distribution of cost to other benefited parties, it might be discovered that the existing waterway fuel tax already approximates the percentage of O. & M. cost recovery sought by the administration and acceptable to Congress.

Quickly, let me try to relate based on our calculation what amendment 32 would mean if it were reduced to a diesel fuel tax. It would require a tax of approximately 65 cents per gallon. Such a tax, related to the transportation of grain by barge from St. Paul, the head of navigation on the Mississippi to New Orleans, or Sioux City, Iowa, the head of navigation on the Missouri, would translate into a freight rate passthrough of $6.50 per ton from St. Paul and $9.75 from Sioux City. That further translates into 20 cents to 30 cents per bushel at the farm from those respective grain-gathering areas.

Regardless of the taxing scheme employed, the estimated net collection would no change based on amendment 32, and the cost per bushel estimated above would increase on the basis of segment fees.

We respectfully submit: Any additional inland waterway taxes should be considered in the light of constitutional prohibitions against discriminatory taxation; any new policy of transportation cost recovery should be instituted equitably among the subsidized competing modes; any new policy of cost recovery for projects constructed and operated by the Corps of Engineers should not be arbitrarily limited to shallow draft navigation projects, but should include all types of water resource projects.

We are not opposed in philosophy, Senator, to the administration's theme of cost recovery, but we believe fiscal responsibility is the order of the day and the public mandate, that all interests should be subject to the same economic test, and that is, if you don't want to pay the bill, you don't order the goods.

Thank you, Mr. Chairman.

Senator **Abdnor**. Thank you, Mr. Lambert.

I believe, Mr. Wilson, you are next.

STATEMENT OF ARCHIE WILSON

Mr. **Wilson**. Mr. Chairman, my name is Archie Wilson. I am in the barge and towboat business, headquarters in Houston, Tex.

I would like to address my remarks today to two specific issues related to waterway user charges. No. 1 is the question of modal equity and the aggregate effect of three significant cost recovery proposals of the administration. Before I do that, I would like to present a brief background of the Gulf Intracoastal Waterway and its impact on the regions it serves.

The Gulf Intracoastal Waterway extends some 1,100 miles from Apalachee Bay, Fla., to the Mexican border, moving some 102 million tons of domestic waterborne commerce per year, as well as considerable foreign traffic.

The waterway makes vital contributions not only to the national economy in terms of exports of vast amounts of grain and other commodities, but also impacts positively on the States and regions it borders. For example, a 1975 study by Texas A. & M. University revealed that the Gulf Intracoastal Waterway generates a total direct economic impact to Texas of $1.8 billion.

Traffic on the waterway consists primarily of petroleum and petroleum products, chemicals, coal, and other ores. In addition, various ports on the gulf handle substantial volumes of traffic.

The Port of New Orleans handles some 160 million tons of commerce annually, consisting of grain exports, petroleum imports, and the movement of other basic raw materials.

Studies have shown that the direct impact of the port exceeds some $1.3 billion to the local area alone, in addition to over $3 billion each year in indirect impacts. The port is a dominant economic factor in New Orleans and more than half the $10 billion of goods and services produced annually in the surrounding area are in some way dependent on waterborne commerce. Some 20 percent of the area's jobs are equally dependent on port activity.

The Houston Ship Channel extends some 52 miles inland from the gulf to Houston, carrying upward of 112 million tons of traffic each year. Included in that total are 42 million tons of imports, primarily crude petroleum, and over 20 million tons of export grains and chemicals.

Some 19 million tons of coastal traffic moves in the channel each year, consisting primarily of fuel oils. An additional 25 million tons of inland traffic moves on the channel, including other petroleum and petroleum products.

The Port of Mobile also serves as a vital import/export point, handling some 36 million tons of traffic each year, about 40 percent of which consists of foreign trade. Major commodities are coal and grain products to Japan, coal to Italy, grain to the U.S.S.R. and Holland, and soybeans to West Germany and the Republic of Korea.

Imported petroleum products from Saudi Arabia, Indonesia, Nigeria, and the Bahamas arrive at Mobile, in addition to iron ore from Venezuela.

It is overlooked, all too often, that all modes of transport receive benefits from Federal moneys spent on deep-water channels utilized in foreign trade. Railroads and trucks, as well as water carriers, handle huge volumes of export and import tonnages annually that they would not otherwise enjoy were it not for these Federal subsidies.

Turning to the question of modal equity, our industry feels strongly that it is inequitable to single out one mode of transportation to reimburse the Federal Government for expenditures which benefit that mode, while other transportation modes receive substantial unreimbursed Federal subsidies. Placing an inequitable burden on only one mode of transportation will cause a sudden and massive switch by the Nation's shippers to other modes. These shifts could cause serious disruptions in the flow of commerce, particularly in the movement of current and projected increased volumes of grain and coal to export ports.

In addition, we call your attention to a critical concern of the waterways industry which has not been properly addressed. Not only would the industry be burdened by the impacts of S. 809 and S. 810, but also the administration is proposing that up to $500 million a year be recovered for various Coast Guard services. We ask you to recognize and consider the aggregate effect all these cost recovery proposals will have on the domestic water carrier industry. The combined effect of all three proposals, if enacted, would seriously challenge the industry's ability to sustain its operations and serve the Nation's shippers.

Thank you very much.

Senator **Abdnor**. Thank you, Mr. Wilson.

Next is Mr. Sanders.

STATEMENT OF ROBERT SANDERS

Mr. **Sanders**. Mr. Chairman, my name is Robert Sanders, vice president of Turecamo Coastal & Harbor Towing Corp. of New York City. My testimony presents the views of an operator along the Atlantic coast and outlines briefly some views on S. 809 and S. 810.

S. 809 authorizes a non-Federal public body to establish and collect user charges and as such establishes a czar over the port area. It is of some concern to our industry that, in abdicating its traditional role, Congress may leave a vacuum without setting any criteria for the operation of the non-Federal public body. If Congress is not going to maintain a continuing surveillance of these organizations, it should, at the very least, establish criteria to measure the effectiveness of the public body in serving a broad spectrum of the shipping interests of a port.

S. 809 further defines commercial waterway transportation as the "use of a vessel in any deep-draft channel or ocean * * * port." This definition does not discriminate between those vessels which use the deep draft of the port and those which do not. Ocean vessels, for example, laying at anchor, require services of many shallow-draft craft—launches for changing crews, small derricks and small boats for conducting voyage repairs, pilot vessels, provisioning vessels and bunkering barges, tugs and small self-propelled tankers. The non-Federal public body would find the definitions under the act broad enough to assess user fees on all these craft even though they do not need the deep-draft channels for operation. Certainly in the case of inland tugs, barges and self-propelled tankers which have been asked to respond for a user fee on the inland waters under S. 810, a tax applied to them under S. 809 would be double taxation.

The application of a user fee to coastal operations under S. 810 is difficult due to the nature of the business itself. Coastal tugs and barges, which must be designed and manned to withstand the conditions of the ocean, must also be equipped to run into the few coastal rivers which are covered by this legislation. With the exception of the Atlantic Intracoastal Waterway which was included in the Inland Waterways Revenue Act of 1978, these coastal waterways represent an addition to the area covered by that act.

Along the North Atlantic coast particularly, the rivers are naturally deep and rocky, and many are self-scouring. For this reason, the amount of money spent by the Federal Government in maintaining these inland waterways has been miniscule when compared to the total national budget for these projects.

For example, the Corps of Engineers' preliminary analysis of operation and maintenance expense recoverable under S. 810 shows that, for the year 1980, segment 29, the North Atlantic coast expenditures were roughly $14 million; Segment 30, South Atlantic coast, roughly $13 million. Our analysis of the North Atlantic coast figures from Maine to Cape Henry, Va., show that of the $14 million expended only $8 million can be directly related to projects which are used by the tug and barge industry; the balance is assumed used for pleasure craft and fishing boats. This latter figure, the $8 million, includes some $1.5 million on the Atlantic Intracoastal Waterways of Virginia and $1.3 million at Deep Creek, Newport News, Va., part of the same system, for which a fuel tax is currently assessed under the Inland Waterways Revenue Act of 1978.

If the user charge proposed in S. 810 would apply to coastal tugs and barges and self-propelled shallow-draft cargo vessels all the time, and at the same rate used in other sections of the country, it would be an unwarranted burden on coastal operations since, as we have indicated above, Federal expenditures are low and since a great portion of our voyages do not use shallow-draft channels. A barge loaded, for example, in New York Harbor with 50,000 barrels of oil can proceed down Long Island Sound for delivery to Port Jefferson, N.Y., or even beyond to New England ports such as Tiverton, R.I., without encountering any waters under 14 feet. Were the user charge to apply in these instances, fuel to Port

Jefferson and fuel to Tiverton would cost more to the consumer in those areas.

If the user charge were to apply only to that portion of a voyage which was conducted on the improved inland waterway some allocation system would have to be devised. Tax allocations are always difficult, seldom accurate, and generally accompanied with miles of redtape.

Thank you.

Senator Abdnor. Thank you, Mr. Sanders.

Our last panelist is Mr. Bedient.

STATEMENT OF LESTER C. BEDIENT

Mr. Bedient. Mr. Chairman, my name is Lester C. Bedient. I am senior vice president of Crowley Maritime Corp. in San Francisco. I am appearing here today on behalf of American Waterways Operators, Inc.

I would like to concentrate my remarks in a group of brief overviews of the importance of the Columbia/Snake River and west coast of this Nation. I would also like to address the ongoing study of waterway user charges mandated by Public Law 95-502.

In 1973 and 1980, the Pacific coast imports and Columbia/Snake Rivers contributed greatly to the economy of the United States. The Columbia/Snake River system plays an important part in the export of ever-increasing grain crops. The Snake River alone handles nearly 4 million tons of internal waterborne traffic each year, consisting primarily of wheat. The Columbia handles another 44 million tons of oceangoing and internal traffic, consisting of wheat, logger, and energy industry related products.

The west coast ports of Long Beach, San Francisco, Puget Sound, and Alaska account for the movement of approximately another 190 million tons of commerce, both in and out. The ports of the west coast are vital to the regions they serve and the Nation as well.

Contributions of these waterways is important—was important enough that Congress, in 1970, mandated a full and complete study with respect to waterway users, and Public Law 95-502 established a tax on diesel fuel used for commercial navigation on 26 segments on the U.S. waterways. The tax began at the rate of 4 cents a gallon in 1980 and is scheduled to increase at increments of 10 cents in 1985. Congress, unsure of the effects of waterway user taxes, mandated a comprehensive study to determine the impact of these taxes. The Departments of Commerce, Transportation, as well as other agencies, are in the final stages of 3 years of work on this study which is scheduled for completion and transmittal to Congress by September 30 of this year.

Congress is now being asked to adopt new user charges prior to the completion of this study they have mandated, which makes frugal the time, funds, and effort put into the conducting of this study. Our industry recommends the deferral of action on S. 810. We believe that no action should be taken until the study mandated by Public Law 95-502 has been completed, evaluated for a minimum of 6 months, to insure full public review and input.

Thank you for the opportunity of testifying.

Senator Abdnor. Thank you, Mr. Bedient.

There is a vote going on, so we will take a brief recess and I am going to ask you gentlemen to remain so we can ask you some questions. I would just like to say to the others who will be testifying I think we will keep right on going because we do have a deadline here for another committee meeting at 2 o'clock. So maybe we will delay some lunches around here, but I think it is the only way we can go. I don't know how many votes are coming. I will keep the staff informed here what we are doing, but we will come back just as soon as we can.

[Recess.]

Senator ABDNOR. The committee will come back to order.

I must apologize, but we ended up with four votes back-to-back, and there was just no other way out of it. I hope we can pick up where we left off here.

Mr. Kucera, do you know enough of the Department of Transportation's study to know at this stage whether it is being conducted in a fair manner?

Mr. KUCERA. The information that I have personally seen, Mr. Chairman, leads me to believe that we, personally, will have some problems with it.

Senator ABDNOR. Any of the rest of you gentlemen, have you seen the study?

Mr. WILSON. I have not seen it.

Senator ABDNOR. Could either one of you tell us why you feel it could be a problem?

Mr. LAMBERT. Senator, my company responded to the inquiry of Booz-Allen & Hamilton, one of the contractors, who had voluminous questions to ask about commodity movements, pricing and so on, size of boats and power of vessels, and movements from here to there, and with great effort we answered those questions. We attempted to cooperate, but it took us several pages of qualifications in our response to explain the answers because the questions were, we thought, somewhat convoluted. It began from the assumption that, in one instance, as if the grain suddenly appeared either on the river or at the rail. They don't understand that there is an initial movement, a truck movement, of grain. There are other factors that indicated to us that there wasn't a lot of basic knowledge on the part of the folks who were asking the questions of the ebb and flow of these commodities.

Senator ABDNOR. I believe you pointed out in your testimony, Mr. Lambert, the dredging costs that are incurred unnecessarily as far as your industry is concerned, as I understood your testimony. Was that brought to their attention?

Mr. LAMBERT. That was not incorporated in the questions that were created by Booz-Allen & Hamilton, Mr. Chairman. Their questions related purely to operational factors in the movement of commodities by barge. They only might have approached that backhandedly by some discussion without their own study group of levels of user fees, but they certainly never asked us any questions wherein we could provide them with information as to the way O. & M. funds were being expended as those of us who are on the river see them being expended now.

Senator **Abdnor**. Are there in your mind other areas similar to the dredging that should be brought out that are not getting enough consideration?

Mr. **Lambert**. Well, sir, there are factors in various areas of the river where recreation is a very intense user of the river system along with commercial commerce. They have as much right on the river as we do; there is no question about that. We have never challenged that.

Senator **Abdnor**. But earlier today Mr. Walsh said that recreation and hydropower, irrigation, flood control, were all given a percentage of this overall cost. I was just wondering have you looked at the breakdown to see if it is equitable, in your mind?

Mr. **Lambert**. All I have heard, what Mr. Walsh said, they did not take 10 percent of all O. & M. costs for these other considerations. I, personally, know from Corps of Engineers' statistics the upper portion of the Mississippi River there are as many recreational lockages as commercial. There is an even usage of those locks by recreation. So I don't quite see how he gets a 10 percent reduction to cover recreation, irrigation and environmental considerations, nor do the Corps figures show that that is appropriate. This brief study they did just last year, 1980, for three districts—St. Paul, Pittsburgh and St. Louis—shows 25 to 30 percent of the costs have nothing to do with navigation, and they didn't get into the matter of dredging.

Mr. **Wilson**. Another example of that would be along the Gulf Intracoastal Waterway where the locks are salt barriers to keep salt from intruding into the fresh water and have nothing to do with navigation. We really don't know where that expense lies. The barge operators do have to go through them, but they are not part of the navigation.

Senator **Abdnor**. They wouldn't have had to construct the locks for navigation purposes?

Mr. **Wilson**. Correct.

Senator **Abdnor**. You are paying the costs of operating those locks?

Mr. **Wilson**. I don't know where it is charged; that is part of the problem.

Mr. **Lambert**. We guarantee it is charged to navigation. It is flood control or navigation. They have a two-column ledger.

Senator **Abdnor**. You, Mr. Lambert, mentioned that the difference in cost that was added for shipping grain from the Twin Cities to New Orleans would be something like 30 cents a bushel.

Mr. **Lambert**. Yes, sir, that is right.

Senator **Abdnor**. Yet Mr. Walsh says his estimates are between 3 to 10 cents as a result of recovery of user fees. Do you think that much of a difference in the breakdown where you feel the costs ought to be attributed to the various divisions, factors versus his version, in other words, he is just weighting navigation too much to come up with—that doesn't add up, I guess, it is the other way around. He should have a much higher fee than yours if he was putting too much of the cost toward barges. How do you explain the difference, sir?

Mr. **Lambert**. I really don't know how Mr. Walsh has arrived at his calculation. What I did to arrive at mine was to take Senator

Domenici's amendment 32. We have utilized the formula that he inserted in the Congressional Record on April 28, 1981, where he attempts to achieve a recovery level by fiscal 1987 of $457 million. And on the assumption that our industry burns an estimated 700-million gallons a year, if we are to relate that recovery to a common denominator that we can all understand today, that is going to take 65 cents a gallon. It is 700-million gallons into $457 million.

Senator ABDNOR. Is that in your statement?

Mr. LAMBERT. Yes, sir, it is.

Senator ABDNOR. So we have it.

Mr. LAMBERT. That is right. And that 65 cents a gallon we translate into a freight rate from the head of navigation on the Missouri and the head of navigation on the Mississippi into the figures I mentioned, and that translates back into the cost per bushel, which is 30 cents out of Sioux City and 20 cents a bushel out of St. Paul.

Senator ABDNOR. We heard a great deal about the subsidies given to the railroad and those given to the barge industry. I would like to have your list of subsidies given to the barge industry and those given to the railroad. Have you done any followup?

Mr. KUCERA. We have appended with the comprehensive statement a brochure——

Senator ABDNOR. We have that in the record?

Mr. KUCERA. Yes, it should be in the materials you have up there, and it pulls out so you can see the work we have done to illustrate the historical cost of Federal subsidies to rail and inland waterways, current annual cost of Federal subsidy to inland waterways for fiscal 1980 and current annual cost per ton mile to rail and inland waterways, fiscal 1980.

Senator ABDNOR. I guess that will be fine then. One last question. What do you think about the idea of a trust fund that is devoted to the rehabilitation and renovation of older waterway projects with an amortization of new development type waterways, amortizing the new costs, the new projects, over the years and having a trust fund set aside for that?

Mr. KUCERA. Like the trucks?

Senator ABDNOR. Well, rehabilitation and renovation, yes.

Mr. KUCERA. My own feeling is that there may be a time for that sort of a concept to be given serious consideration. It is in Public Law 95-502 now. It just seems to me before we jump to deciding how best to fund some of these programs that we need to answer some of the questions that are more pressing, and some of those questions are the cost allocation question, the question with regard to transportation objectives being inconsistent with budget objectives, and how we kind of work to try and find out what best serves the country. Should we go along and try to correct the economic problems of the country and ignore energy objectives and transportation objectives and agricultural objectives? It seems to me there are an awful lot of questions that need answering before we get to that point of deciding how best to deal with a trust fund.

Senator ABDNOR. Well, thank you, sir. We appreciate all of you gentlemen coming here. I am sorry we are under the pressure of time. I have several other questions that I think we will submit to you for you to answer in writing. All this information is very helpful and I am sure we will be talking to you again.

Mr. KUCERA. Thank you, Mr. Chairman.

Senator ABDNOR. Mr. William Dempsey.

STATEMENT OF WILLIAM A. DEMPSEY, PRESIDENT, ASSOCIATION OF AMERICAN RAILROADS, ACCOMPANIED BY FRANK WILNER, DIRECTOR, WATERWAYS STUDIES, ASSOCIATION OF AMERICAN RAILROADS

Senator ABDNOR. Mr. Dempsey, we are happy to have you here today. I am sorry we have kept you waiting so long, but you go right ahead.

Mr. DEMPSEY. Thank you very much, Mr. Chairman, it is perfectly all right. I have with me Mr. Frank Wilner, who is the Director of our Waterways Studies at the Association of American Railroads.

I am glad to be able to be here today to state the views of the railroad industry with respect to S. 810 and related proposed legislation having to do with user charges. I do have a prepared statement that I would ask be included in the record (see p. 143), and I will simply try to touch upon the highlights, the main considerations that appear to us to be very relevant to this very important transportation question.

I could, and do, endorse everything Mr. Walsh says. We do, of course, speak from the perspective of the rail industry and we do have our own parochial interests in this. The question is whether those interests correspond with public interests. We think they do.

It comes as no surprise to the committee to hear me say the industry strongly supports S. 810. For some years now, we have taken the position that there have been two perversions of public policy that have adversely and seriously affected the rail industry, which has gone through the difficult period with the collapse of the Penn Central and five other Northeastern railroads, the complete demise of the Rock Island and truncation of the Milwaukee, which the chairman is familiar with, and those perversions, on the one hand, are the over-regulation of the rail industry in relation to the completely unregulated carriers of our barge and motor carrier competitors. An important step—not a full one, but an important step—was taken to rectify that last year by the passage of the Staggers Rail Act. And, second, what we regard as very large and crippling subsidies given to our competing modes. By the way, in the air mode, the principle of full user charge compensation has always been part of the Federal compensation. The open question is whether indeed the heavy trucks are paying their fair share. We think they are not. That question will doubtlessly be addressed by the Congress and States in due course.

The second is the issue that we are talking about today, the absence of any meaningful user charges with respect to the inland waterway system. It is true that in 1978 the Congress imposed, for the first time in history, a user charge on the users of the system. But it is a pitiably small charge. We are talking at the present level a recapture of about 4 percent of the total Federal expenditures at the 4-cents-a-gallon level, and at its highest level in 1985, at 10 cents a gallon, we are talking only about a 10 percent recapture of Federal moneys that go to the operation and maintenance and construction of the inland waterway system. So it is not a meaningful user charge, but it is important in that it did establish the principle of user charge recapture of Federal moneys.

The subsidy, according to the Congressional Budget Office, amounts to about 42 cents for every dollar—that is, 42 cents from the Federal Government—for every dollar that shippers pay to the barge industry. That is a truly massive subsidy. If we in the rail industry got a comparable subsidy, it would be about $10 billion a year.

Senator ABDNOR. Say that again.

Mr. DEMPSEY. This has to be adjusted by the 4 cents a gallon, so you reduce by 4 percent of the Federal cost. According to the Congressional Budget Office figure, the Federal Government by virtue of maintenance and operation and construction of the inland waterways operation contributes 42 cents to inland waterways for every dollar that shippers pay in shippers' charges to the bargers. As I say, it is an extraordinary subsidy.

The most obvious import of a subsidy of this sort is that it increases total transportation costs in the United States. The reason it does that is that the subsidy artificially reduces the costs of the barges and thereby permits them to reduce their rates to levels that do not cover, by a long shot, all of the costs. That means that in a situation, for example, in which the rail charge, let's say, is $8 a ton for transportation with a commodity from A to B and the total barge costs are $10 a ton, taking into account the Federal expenditures and subsidy permits that barge cost to be reduced to $6 a ton. Obviously the traffic will move at the $6, but the total cost is $10—$2 more than the rail charge. This distortion of the marketplace that results in higher cost movements in total in the U.S. obviously is an inflationary factor.

There are other impacts that are related to it. The shippers, as has been noted, that have access to the waterways are subsidized to the disadvantage of other shippers who cannot use the inland waterway system and are often competitors of the shippers that are subsidized. The communities that are not advantaged by the barge system are disadvantaged. Industries move. Plants move in order to take advantage of the lower rates from, let's say, the Northeast to the Southeast, with the concomitant dislocations that occur when this kind of community disruption occurs.

The rail industry is impacted adversely and, to some degree, the motor carrier industry, and therefore the shippers and communities that depend on rails are damaged, and damaged seriously. The rail system is a heavy fixed-cost system with large excess capacity, and therefore when traffic moves off the rails that really ought to be on the rails in an economic sense, the shippers that are tied to the rails and the communities that are tied to the rails suffer in one of two ways. Either they have to take up the slack through higher rates than they otherwise would have to pay, or they get worse service than they would otherwise get because of the financial inadequacy of the rail system, and the result is usually a combination of those two.

There are other impacts, and I think Mr. Lambert really alluded to one of them, and I didn't really disagree with what he had to say in principle. Because the users don't have to pay the cost of the system there is no real control over the extent to which money is poured into the system. When, as he phrased it, you have to pay, then you have a choice of taking or not taking, and you won't take it if it is not going to pay out. The consequence, it seems to us, we have a radically overbuilt system in the United States. A good example is the St. Lawrence Seaway. That is the only project that was supposed to recover 100 percent of its costs, and it hasn't come close. In 1980, Congress had to remit the interest on the construction costs and extend the schedule, and now the St. Lawrence Seaway development operation says further modifications are going to have to be made if it is going to have any chance of meeting its capital costs. So the leaders of that system have signaled the cost-benefit analysis was too high. They have refused to pay the charges that would have to be collected if the full costs of projects are to be recovered. We are going to have it again in the Tennessee Tombigbee situation. The latest GAO analysis indicates that the cost-benefit is not going to work out. It is another burden to put on the American taxpayers for a project which, in our view, the barge industry would not have wanted if they had to pay for full costs.

Now let me spend a moment on this question of comparable subsidies because it seems to me, if I listened correctly this morning, that there was not very much in the way of disagreement about the propriety and indeed desirability of full user charge collections on the part of the transportation companies who are the beneficiaries of Federal and State expenditures provided that that be done in an evenhanded way, and indeed this has been the principal argument advanced by the barges from the start. Well, whatever might be said in the abstract about the desirability of user charge recovery, the fact of the matter is the railroads are the beneficiaries of large expenditures of Federal moneys, and therefore to keep the system on keel the user charges should not be imposed on the barges. Let me suggest there are two things wrong with that argument.

In the first place, if it were true that subsidies are being given in massive amounts to both industries, then the remedy is not to continue a doubly wrong public policy but to terminate it with respect to both modes. And we have taken the position, and I say today, that no transportation mode should be the recipient in any long-range basis of subsidies. There may be emergencies that occur in the short run that require, for the protection of the shipping public, some kind of public assistance or State assistance. But as a long-term policy no mode should receive Federal or State subsidies. That is our policy and, as I say, has been for some time.

The second thing wrong with the argument is it is factually in error so far as historical expenditures are concerned. I agree with Mr. Walsh that one does not benefit very much from trying to unravel the arguments about past history. One really ought to start out from afresh because if somehow the railroads had to repay the Federal land grants, which incidentially they already had, but assuming for the moment they had not, then the barge companies would have to repay the cost of construction of the whole inland waterway system, and no one has suggested that that kind of crushing burden should be imposed on the barge industry.

Incidentally, we are not antibarge. We know and recognize the barges perform services in many sections of the country more efficiently than the railroads. They will always be an important part of our transportation system, and we want to work in coordination with them when they can provide service, and we do that.

But in any case, the committee doesn't have to rely upon my assertions or the barge industry assertions. Back in 1976, in order to clear this question once and for all, the Congress mandated the Department of Transportation to study carefully the question of subsidies given to the modes of transportation. That study has been submitted to the committee. In brief, what it indicates, if one goes back to the beginning of the Republic and calculates all Federal assistance that has been given to the barges and rails, you come out with something in the way of less than $1 billion to the rails—and that is from the beginning of the Republic, well, from the beginning of the rail industry in the middle part of the last century—less than $1 billion, but almost $11 billion to the barge industry simply since the end of the Second World War. So that is the Department of Transportation's conclusion with respect to this matter.

If we look at the current situation and, as I say, that is relevant, what is going on now, I haven't seen the material that has been submitted to the committee, but we will want to look at it and comment, with your permission, upon it. But let me tell you the situation, as I understand it.

In the first place, it seems to me everyone ought to agree that the subsidy that goes to Amtrak should be put aside. That has no benefit whatever to the freight-carrying railroads of the United States. And indeed while we have no comment about that subsidy one way or the other, it seems to me for the present purposes everybody really ought to concede that is irrelevant, otherwise we would be taking the position the administration is correct and the subsidy ought to be eliminated. But we don't take that position because there are other questions relating to passenger service that are matters of public policy we don't really feel confident to speak to.

We have a modest amount that has been given in the way of branch line assistance in circumstances where the railroad would abandon a branch line and a local group of shippers might pick it up and receive Federal assistance to see if they can make that line work. We have not objected to that, but we haven't asked for it because it really doesn't redound to our benefit. The administration proposes elimination of that, and we have to agree as long as we are permitted to abandon those lines if they are losers.

We have a system of guaranteed loans that was devised in order to try to salvage railroads like the Rock Island. It is comparable to the guaranteed loan program that the barges have. They have something in the way of $400 million a year outstanding in Government guaranteed loans. I am not familiar with their program, but we have never asked it be terminated because it is not a subsidy in the sense that I am talking about, that is, a direct expenditure of Federal money. The railroad loan program is slated for abolition, provided there is competitive equity here and user charges imposed on our competitors, we will take no exception to that.

That leaves Conrail. Conrail is a special case, and I think a very illuminating case. Here we have loans in several billions of dollars, and I think in contrast to the other loans that are guaranteed loans and that, for the most part, the railroads fully expect to be able to repay, I think it is fully clear Conrail will not be able to repay the several billions in Federal money poured in it. It would have been better for the rest of the rail system if that money had not gone there and Conrail had been put on the block and sold off. But that didn't seem to us to be responsible in terms of the dislocations that might occur in the Northeast with respect to the shipping community. And we didn't propose, but we do support, the administration's program to eliminate as promptly as possible any further moneys being placed into Conrail. I am not speaking now which of the various programs under consideration is better, but, in principle, we are opposed to any long-term continuation of Federal assistance to Conrail.

But Conrail does teach us something. Conrail, the Penn Central, the Northeastern Lines, the Rock Island and Milwaukee were driven into the ground in large measure because of these subsidies and because of the regulatory climate. So what we have then is a situation which, in order to salvage the situation, the Federal Government has had to step in and spend all these billions of dollars in order to protect the shipping public. In the words of Pogo, "The taxpayer gets to pay twice for nothing." They pay first with the public subsidy and then they pay to replace the damage the subsidy has caused.

Mr. Chairman, there are some comments we have on the particulars of the bill and of the amendment which are contained in my statement, and I will simply rely upon that.

Thank you.

Senator ABDNOR. Have you looked at the study that is being prepared or is underway?

Mr. DEMPSEY. The Federal study?

Senator ABDNOR. Yes.

Mr. DEMPSEY. I have not. We certainly have been in touch, as Mr. Walsh said, among many others, with the staff people who are doing the work. Mr. Wilner is more familiar with that study than I am, but I know a great deal more than Mr. Walsh said this morning.

Senator ABDNOR. When you talk about subsidies, you have to come up with hopefully what is an accurate breakdown of what is attributable to the various users and purposes of the water, and that seems to be one area of contention here today with the testimony we have heard. You probably don't have any comment on that since you say you haven't looked at this closely, the proportionate share attributable to navigation.

Mr. DEMPSEY. I haven't. It will be different on different parts of the waterway. But I will say in principle where you have an improvement made that would not otherwise be made except for navigation, that the full cost—except there may be some special cost there that ought to be attributed to other uses—but there shouldn't be an allocation of basic cost in those circumstances. But I think you have to look at the particular waterway involved, or I would, in order to comment intelligently on that.

Senator ABDNOR. I was interested. You have touched on the various subsidies that are incurred in your industry. You have heard brought up today things like the social security transfer under the pension system. Would you care to comment?

Mr. DEMPSEY. Yes, I am glad you mentioned that. I am intimately familiar with that subject. I was the chief labor negotiator for the industry and negotiated and dealt with that legislation back in 1974. That is most assuredly not a subsidy. The situation was this: that Federal money goes to fund only one type of benefit, the so-called double benefit or dual benefit. What happened was this: because of, as Congress subsequently acknowledged, a legislative decision that was erroneous from the start that was proposed by the railroad, because of the legislative decision what happened was that railroad workers who qualified for a railroad retirement by working for the railroad and then went to some other business and qualified for social security, or moonlighted, one under railroad retirement and the other under social security, because of what is known in other situations as double-dippers what they got was a higher retirement benefit than someone who had worked for the same period of time earning the same amount of money either just in the railroad industry or in social security, and that is because of a complicated interface between the two systems. In that case, it is that category of beneficiaries we are dealing with.

We recommended, and Congress adopted, in 1974 the abolition of that type of benefit. It was not to our benefit at all. But social security was not obliged to pay for it because it was an imperfection in the interchange between the rail system and social security. So the full burden of that fell on the railroads, and what Congress held was it would be unfair to make the current railroad employees pay for any of this because they weren't going to be eligible, and it would be unfair to the railroads because it wasn't their fault because it was the Congress that enacted those provisions in the Railroad Retirement Act. On the other hand, it wasn't regarded as fair to take those benefits away from people who had already earned them because they were acting in anticipation of retiring on the basis of the way the law was at the time.

What Congress said was there would be no more benefits like this for the future, but those people who have earned them will get them. We will freeze them. They are not going to escalate when they retire. But it wouldn't be fair to have the present railroads pay, and there really isn't any alternative but to have the Federal Government pay. If the Congress has said abolish the benefits, that would have been fine. And if they want to say it now, it is entirely up to Congress. But that is the background of that.

Incidentally, Mr. Chairman, one other thing. We have an analysis of all the alleged subsidies with respect to the rail system. It is a detailed study, and we would like to submit it.

Senator ABDNOR. We would like to have that.[1]

Mr. DEMPSEY. You will find a full discussion of railroads.

Senator ABDNOR. One last question.

Some representatives of the barge industry state that if user fees are imposed on waterways, that the railroads will at least increase servicing equal to those of the barges. Do you think that is true?

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[1] The study referred to has been retained in the committee files.

Mr. **Dempsey**. Well, I think Mr. Walsh indicated—and it is not really possible to predict what will happen. What we have now is a situation we call barge-compelled rates. The closer you are to the waterway, the more competitive to keep the rail rates down. As the barge rates go up, the railroads will have an option. They will either be able to capture more traffic by keeping their rates down or they will be able to increase their profit margin by raising the rates to the level other shippers have to pay in the country. Mr. Walsh thinks it is going to be a combination of those, and I guess that is the most intelligent guess. But you really can't make an accurate prediction because there will be that option, and it will depend on what other competing railroads do. As we get into the deregulated environment, increasingly there comes to be competition among railroads.

Senator **Abdnor**. Do you think we might see something like we are witnessing today in airplane fares under the proposal? When I go home to South Dakota, just to get into the State, the eastern part, costs me $500. I can fly round trip from here to Los Angeles for less than $300 round trip. Now is that what we are saying here, if competition isn't great enough you can shift the costs over?

Mr. **Dempsey**. That is a peculiar situation. It just says something about the relative desirability of going to Los Angeles and where you are going;

Senator **Abdnor**. Maybe so. You have to have a lot of duty if you are going to make up that difference.

Mr. **Dempsey**. I think we can learn a great deal from what happened since the Staggers Act went into effect. There were shippers who predicted there would be an explosion in rates as soon as the wraps were taken off the rails. We haven't had it in the rail industry. With respect to grain, we have so many empty cars out there and grain rates are being slashed to the bone by almost all western railroads. It has happened in your State. There are reductions of as much as 50 percent.

Senator **Abdnor**. Thank you, Mr. Dempsey. We may have some other questions. If we do, we will submit them in writing.

Mr. **Dempsey**. Thank you, Mr. Chairman.

Senator **Abdnor**. Again we have a panel of Mr. Harry Cook, head of the National Waterways Conference. Mr. Cook, if you and your group will come forward we will go right into that.

STATEMENTS OF HARRY COOK, PRESIDENT, NATIONAL WATERWAYS CONFERENCE, INC.; JAMES A. SKINNER, JR., CHAIRMAN, NATIONAL WATERWAYS CONFERENCE, INC.; DONALD M. MEISNER, DIRECTOR, SIOUXLAND INTERSTATE METROPOLITAN PLANNING COUNCIL, SIOUX CITY, IOWA; LONNIE E. HAEFNER, PROFESSOR OF CIVIL ENGINEERING, WASHINGTON UNIVERSITY, ST. LOUIS, MO.; LLOYD ANDERSON, EXECUTIVE DIRECTOR, PORT OF PORTLAND, PORTLAND, OREG.; EDWARD MALLOY, CONSAD RESEARCH CORP,. PITTSBURGH, PA.; AND DONALD A. FREDERICK, ASSISTANT GENERAL COUNSEL, NATIONAL COUNCIL OF FARMER COOPERATIVES

Senator **Abdnor**. Mr. Cook, would you care to introduce your colleagues.

Mr. Cook. Thank you. My name is Harry Cook. I am president of transportation for the Waterways Conference. We thank you for allowing us to be heard.

Today, we wish to present to you a knowledgeable panel of witnesses, who through their work have come to know a great deal about the importance of the waterway transportation, to comment on specific industries and the well-being of the interior regions of the country. Each has submitted written statements and requests they be made a part of the record.

Senator Abdnor. They will be.

Mr. Cook. Unfortunately, Mr. Kober of our panel has had to leave to catch a 2 o'clock train, and two or three other members of our panel have engagements in a few minutes. I would like to ask my statment be made part of the record, and I would call on Mr. Don Meisner, director of the Interstate Planning Council, Sioux City, Iowa, who has to leave in a few minutes.

Senator Abdnor. I am just sorry this had to happen.

STATEMENT OF DONALD M. MEISNER

Mr. Meisner. Thank you. I have the same problem with air rates to Sioux City that you do to Sioux Falls. I might add the desirability is in the eyes of the beholder.

I am director of the Siouxland Interstate Metropolitan Planning Council. It is a coordination of local governments located in northwest Iowa, southeast South Dakota, and northeast Nebraska. We have been, and are, involved in water resources issues, including flood control, navigational water quality, and all other water issues that are so much of interest to Western States.

The Missouri River is, of course, our primary resource and our principal geographic feature. Now we as an organization have undertaken several studies regarding this primary resource in the last many years. In 1978, we completed a short study entitled "An Economical Analysis of the Impact of Waterway User Charges on Commercial Navigation to Sioux City," and it has proven out to be very good, I believe. Since that time, Congress has adopted a fuel tax, as you well know. The fuel tax legislation, Public Law 95-502, also directed the Secretaries of Transportation and Commerce to assess the impacts of water user charges. In recent months, there have been several proposals for the recovery of costs associated with maintenance, operation, and construction of navigation projects. We have recently completed another study. This study is attached to this statement and is entitled "An Analysis of the Impact of the Loss of Navigation to the Sioux City Area." I summarize the findings as follows:

Waterway user charges above 17 cents per gallon drive nearly all traffic from the Missouri River, all grain traffic. This, in turn, will allow additional cost to the upbound movement of other types of goods. Navigation rates, as I indicated, will rise for other goods after the grain starts to leave the river. Our industries and producers will suffer accordingly. The cost of the user charge on the grain movement will be borne by the producer—by the farmer.

Comparative transportation rates will likely rise, in our opinion, and as a result we will have a significant direct and indirect cost to the area. Longer term costs could mean the loss of navigation on the Missouri River, in our opinion, and would render it less attractive for recreation, because it is through navigation that we have a stable flow of water in the Sioux City area and lower reaches of the river that makes recreation on the river desirable. This loss of navigation could well lessen our claim long term to the Missouri River water supplies and make interbasin transfer and other uses of the Missouri River much more difficult. I think this is recognized by many people.

Implementation of high-level water user taxes is tantamount to congressional decision to deinvestment in the development of this region, and the broader ramifications of such a policy decision affect the base of Federal-regional relations in both transportation and regional development. Transportation issues have been addressed here today. I won't get into those in detail.

But regional development is another concern. An imposition of these water user charges in our area intensify the disparity we now experience and much of the northeast Midwest has experienced in investment and, in turn, in per capital income, and the costs of continued outmigration will be borne by other levels of government.

We suggest that before you take action to implement high level or segment specific water user charges which could jeopardize navigation on the Missouri River that you consider all the adverse economic and social impacts.

I will certainly answer any questions you have.

Senator ABDNOR. Maybe I will ask you a question because you are going to be leaving. Did you say again that you have experienced a loss of shipments through the recent tax we have imposed? The fuel tax, has that had an effect on your business?

Mr. MEISNER. That is hard to estimate at this time because in this realm where we say we are going to have a perfectly private operation on transportation, we find that the Government imposed an embargo and so the grain went to different areas, and the loss in the Missouri River we can't really estimate. No, I did not say that.

Senator ABDNOR. Speaking to your part of the upper part of the Missouri River, where navigation starts, what do you think will increase costs? Will the growth continue? You have been experiencing growth. Do you think you will be able to retain growth on the Missouri River?

Mr. MEISNER. We can, but as long as there is a possibility in the minds of investors who build terminals and that sort of thing, the navigation may end, then that retards the growth we see. You have to remember the Missouri River project, the 90-foot channel, was just completed last year.

Senator ABDNOR. Thank you.

Mr. COOK. Next is Mr. Lloyd Anderson, executive director of the Port of Portland Commission, Portland, Oreg.

STATEMENT OF LLOYD ANDERSON

Mr. ANDERSON. Senator Abdnor, I appeared before this committee last week in behalf of deep-draft ports of the Northwest and am now back on the shallow draft. So far, the two hats haven't been wearing my hair off, but I don't know if it will or not.

I speak really in behalf of the Northwest and Columbia River ports and the Port of Portland in the comments I have. I have filed a detailed statement, and I think you have that. I see no particular reason to detail that. I would like to at least make a few points.

The Columbia River system opened as far as slack water is concerned to Lewiston, Idaho, in about 1975, so that there was really up until that time on the shallow-draft side no major capital investment, or a small amount, as far as the shore side was concerned, although the Federal investment was significant, that is, in the locks along the waterway system and the dams that were built. We have had a radical growth in the movement of cargo since 1975, by container and other bulks, and that growth has occurred as a result of Federal investment in the system.

Our judgment would be either the waterway charge that would be imposed if the administration's recommendations are adopted or the Domenici amendments would have a significant and negative effect on the volume of traffic moving on the waterway system. And that imposition of increased charges will have a tobogganing effect in an undeveloped or developing area of in fact dropping more charges on what is left, and the effect of that would be, in effect, to reduce more traffic on the river. So we think it will have a long-term and serious and negative effect on the waterway.

Our original estimate of about 20 percent diversion still stands, although we still have quite a bit of work to do on studies that are underway now to determine a little more carefully what the results will be. We have spent a fair amount of money on the studies so far and feel that the results should be forthcoming before a final decision is made as to what Congress should do.

I would finally say again that I think that Congress needs to again look at the impact of this as a part of a waterway system rather than looking at the individual results that are going to come as a result of imposition of charges. Rather, look at the waterway system, what are you trying to accomplish out of it, and then impose a system of charges that is going to accomplish the objectives you have in mind. What goals you have and the mechanisns to accomplish those goals I don't think has been carefully thought out in the legislation you have in front of you.

Senator ABDNOR. Thank you very much, Mr. Anderson.

Mr. COOK. Prof. Lonnie Haefner, Washington University, St. Louis, Mo., who is involved in a study of user charges in the St. Louis area.

Senator ABDNOR. Mr. Haefner, before you start out, what study were you involved in?

Mr. HAEFNER. I am professor and director of the transportation and urban system engineering program at Washington University in St. Louis. My research shop has recently been hired by the State Develpoment Agency, Port of Metropolitan St. Louis, to conduct a study on the regional impacts of user charges specific to the St. Louis region.

Senator ABDNOR. Have you completed the study?

Mr. HAEFNER. We are within 3 weeks of completing the study. We will be wrapping up the study at the end of June.

Senator ABDNOR. We will be very interested.

STATEMENT OF LONNIE E. HAEFNER

Mr. **Haefner**. Let me in light of time summarize very briefly our preliminary findings on the study and add my commentary. You have our written testimony. I will make some page-specific references. The first of that is on page 10, table 5, the impact of a segment toll on the Kaskaskia River.

This is an exact replication of a situation we currently have in the St. Louis region. The Kaskaskia River has 36 miles of developed waterway, with a recent Federal capital expenditure on a lock and dam. It currently has coal transfer facilities with one carrier using it. In order to improve its industrial base, the port district has preliminary plans underway for a 140-acre industrial park, with 500 basic industry employees, either in preliminary or final food processing industries, that are relevant to central and southern Illinois. The impact of a segment toll, based on the information we can gather, would be to preclude further planning and implementation of an industrial park such as this primarily because of the fact that the mortgage bankers, the real estate investors, and the financial and location officers related to these type of industrial firms will not locate in an area where segment tolls will cause the cost to be excessive to the waterway operators of having to cover themselves in cost with segment tolls. We are strongly against the segment toll concept as it relates to developing waterways in the St. Louis region, and in terms of the fact we think these results are similar to other waterways at a development level essentially in our position on segment tolls.

I would like to now turn your attention to page 9, table 4, and if I may back up and give a little bit of background about the study it will help to look at table 4 and table 2, which I think are relevant to you.

We have done a very empirical study, primarily by interviewing with two more surveys by the most water intensive industries that use both rail and water in the St. Louis area. The consensus we have achieved on that is that contained in table 1, which is on page 4. And what we are finding the consensus through these industries is that conjestion tolls might cause up to 100 percent of diversion from water to rail on areas in the Upper Mississippi above Lock and Dam 26. Also, a fuel tax of 10, 30 and 70 cents will result in 5 percent, 15 percent and 70 percent diversion from water to rail. It is generally felt the 70 percent diversion from water to rail is not at all economically healthy for the barge industry or St. Louis region.

If I may return to table 4, page 9, what you see is a current situation of unit train combinations occurring in the St. Louis area on coal. We are a major inland terminal for coal exports and usage in the energy system. What we currently have is water rates of $10 a ton and rail rates of $14 a ton, hauling 12 million tons a year, giving us $288 million a year haul. If we put a tax on at 10, 30, and 70 cents, you see new figures of $290 million, $294 million and $302 million. Part of that new total is based on the fact that the interviews we are running relating to the impact of rail deregulation implies that it is likely any type of captive rail rate on coal might well go within 93 percent of the increment that is applied by water. So if water has to have increments of rate by virtue of fuel tax, we feel the rail may very well come in with an increment that is within 7 percent of that. This results in us having a new additional total in the water column and rail column for that length of coal.

Now discussions with the coal operators in the region indicate that the profit margins in coal are so small that 100 percent of the cost will be passed to the consumer. The fact that all this consumption typically is for energy purposes in New Orleans, La., we find this is simply going to cause more expensive energy rates, more expensive energy aggregate cost for the Nation.

Let me briefly conclude with one more table, which is table 2, which looks at a conjestion toll on grain. Table 2, existing on page 6, looks at the impact of a conjestion toll on grain, with that grain originating in the Upper Mississippi. We are interested in the starred item, which is using 1978 based data. This shows we will probably divert some 38 million tons of grain to rail.

In final conclusion, let me say that the industries feel the conjestion toll of any form would be harmful to the industry and St. Louis. A segment toll would be harmful to the region and the St. Louis industries in general. You will note back in table 5, when we are dealing with the economic aspects, the preclusion of regional development means a significant loss of jobs, further loss of industry, futher loss of Government tax revenues, and just simply the production dollar of basic industry. Therefore, the potential for a segment toll of shutting down a riverway and related economic and industrial developments is a very real one indeed.

Senator **Abdnor**. Thank you.

Mr. **Cook**. Mr. Chairman, I would next like to call on another researcher who is working on a study of user charge impacts in the Pittsburgh area, Prof. Edward Malloy with Consad Research Corp. in Pittsburgh.

STATEMENT OF EDWARD B. MALLOY

Mr. **Malloy**. Thank you.

Mr. Chairman, for the record, I have submitted a copy of the initial phase of a study being done for the Pittsburgh Waterways Association on the impact of user charges on the Pittsburgh economy. This study emphasizes the fact that user charges, however calculated, end up as increases in the costs of commodities that employ river transport in their production or distribution. Price increases in moving raw material would drive prices for the industry up, further reducing Pittsburgh's competitive position vis-a-vis the rest of the Nation. These direct effects and indirect implications may be estimated before the fact. However, they are only part of the potential impact of waterway user charges.

Investment in production facilities was based on a set of reasons which included relative inexpensive waterway transport rates. Industry and commercial development along the Nation's waterways lead to considerable investment in public capital and to investments by regional populations.

My concern is with the efficient use of these capital resources. These resources are fixed in place. They must be used where they stand. Equity demands we stand the consequences of action that may affect the value and usefulness of these resources. Even small increases in user charges may have consequences. Absorbing costs does not mean the user charge would have no impact. Rather, profits would be cut which would lead to less willingness to invest in the facility. Reduced investment—disinvestment actually—will over time further reduce a facility's ability to compete.

Summary, I wish to emphasize that changing the rules of the game entails many impacts not readily anticipated. Gradual imposition of changes and a careful study is a course of action which can lead to equitable and efficient use of the Nation's resources.

Senator Abdnor. Thank you.

Mr. Cook. Mr. Chairman, our final witness is Mr. Donald Frederick, assistant general counsel of the National Council of Farmer Cooperatives.

STATEMENT OF DONALD A. FREDERICK

Mr. Frederick. Thank you.

The main point farmers cooperatives want to make is we better look before we leap. The proposals before this subcommittee are a radical departure from a system that served the Nation well for over 150 years. There are several key questions which must be answered before we can assess the impact steep user feels will have on agriculture. We must find those answers before we can safely pursue a fair and defensible user fee schedule.

First, will the fees disrupt agriculture export trade? The world grain market is highly competitive with numerous suppliers vying to meet importers' needs. If user fees result in our products being priced out of a significant part of that market, then the cost to this country will far exceed the fiscal gain the Government will realize from this tax.

Second, will user fees depress farm income and threaten the solvency of family farms? That portion of the user fee which cannot be passed on to purchasers—and in this case probably most of it—will be forced back onto the producers. In lean years this negative farm price impact could be large enough to contribute to the bankruptcy of smaller farms, particularly those farms of young farmers and others with marginal capital cushions. I am sure that some people would say that if they can't afford to transport their products then they shouldn't be in the business of growing them. I think it would be a sad day indeed if, even indirectly, this become the official policy of our Government.

Third, what will be the impact of user fees on barge-rail competition? For decades agricultural shippers were able to rely on the Interstate Commerce Commission to protect them from unreasonable rail rates. But enactment of the 4-R Act of 1976 and the Staggers Rail Act of 1980 has repealed that protection. Now competition is the principal rate and service regulator. And for long-haul movements of bulk commodities, the only competitor to the rail industry is barge transportation.

Four, will user fees force the closing of some waterways to commercial traffic and, if they do, what will be the impact? There is a possibility that user charges will fall more heavily on the more costly and less developed systems. If the costs get too high, the barges can simply float off to rivers with less onerous taxes. Farms can't be relocated. The departure of the barges would create additional rail monopoly situations, with the inevitable consequences of higher rates and poorer service for those farmers.

Fifth, how can we be sure that our money will be spent on the projects we need? There are two inland waterway projects which are essential to efficient movement of agricultural commodities. First, we need the swiftest possible conclusion of the new lock and dam 26 facility on the Mississippi River, with the inclusion of the as yet unauthorized second lock mechanism in that facility. Second, the Bonneville Dam on the Columbia River must be rebuilt to accommodate the rapidly growing demand for westward export grain flows. It would be the grossest injustice to subject farmers to steep waterway user fees and not authorize these badly needed waterway improvements.

Six, how can we be sure that costs will be properly allocated amongst all users of the inland waterways? There seems to be a major thrust to force as much as possible of the cost of maintaining and improving the inland waterways onto the backs of commercial navigation and its users. The amount of adverse impact on agriculture will depend significantly on how this allocation program will be carried out. Development of the formulas should be a precedent to adoption of substantial user fees, not an afterthought.

And seventh, what types of charges would be the least disruptive for agriculture? Numerous recovery schemes have been advanced. Some might be terribly disruptive of agricultural moves; others not so injurious. We simply need time to study and postulate impacts before instituting any such plan.

Thank you for allowing me to testify. The National Council of Farmer Cooperatives stands ready to work with you on an ongoing basis to develop the best inland waterway system possible.

Senator ABDNOR. Thank you.

Let me say to all of you gentlemen we are appreciative of your appearance here today and the information and facts you have in your testimony. We are very interested in the studies that you have begun, and we are trying to get the overall picture here and be absolutely fair in any legislation that may come out of here. I assure you we will be giving this careful study. We have a long ways yet to go on this issue.

I don't have much time on the clock. They start another committee meeting here, and I was supposed to be on my way to another meeting, so questions we are going to have to dispense with here. If we have some questions, we would like to feel free to submit them in writing, and I am sure we will be in contact with you as we go along on this matter. Mr. Cook, I am sure through you we can contact other people here today. So if you don't mind, I am going to have to thank you for your appearance and tell you we will be seeing you later. Thank you.

Mr. COOK. Thank you, Mr. Chairman.

Senator ABDNOR. We have one last witness, Mr. Milton Barschdorf, Inland Rivers Ports & Terminals, Inc., St. Louis, Mo.

STATEMENT OF MILTON BARSCHDORF, CHAIRMAN OF THE BOARD, INLAND RIVERS PORTS & TERMINALS, INC.

Senator ABDNOR. Mr. Barschdorf, you are kind of under the gun here.

Mr. **Barschdorf**. Mr. Chairman, I certainly appreciate the time you are giving me as another voice in this complex subject that you are listening to today.

The inland rivers, shallow-draft ports and terminals, you have had sufficient testimony from the railroads and the deepwater ports. And I know you haven't heard from the highways, but I am sure you will hear from them also.

I would like to state my name is Milton Barschdorf. I am appearing on behalf of Inland Rivers Ports & Terminals. I am chairman of that group. I think it is a great honor to be able to address this, and I certainly thank you for making it possible. I am not going to read this statement.

Senator **Abdnor**. I assure you your entire statement will be placed in the record.

Mr. **Barschdorf**. Thank you.

We have taken a recent survey to indicate the size of our organization and investment that has been made by the fixed installations of public terminals and private terminals in the United States. It runs about 1,460 terminals, and we have invested somewhere in the neighborhood of $5.5 billion in our fixed installations. That gives you some idea of the investment we have in the waterway system. Our organizations recognizes that the ports and terminals of this Nation's network of inland waterways are the agencies responsible for providing the services which support and sustain the water transportation industry and the transfer facilities for the exchange of cargo from one mode of transport to another.

Our testimony is confined to the proposal which provide a just and reliable means for funding the basic construction and maintenance needs of the transportation modes and a fair application of user charges where necessary.

The navigable waterways, railroads, highways, airways, and pipelines all contribute to the movement of our Nation's products. Each mode, with the possible exception of pipelines, is also the beneficiary of some subsidization by the Federal Government. Each contributes to the economic well-being of various areas of the Nation and also to the healthy growth of our country's trade in the world markets. Each also is vital to our Nation's defense and water effort. All of these factors must be weighed very carefully and intelligently, and I am sure this committee will do that.

On area of direct dollar benefit to the Federal Government which is clearly identifiable is the annual receipts of the Bureau of Customs, which for calendar year 1979 was $8.5 billion. Of this total, only $450 million was required for the operation of the Customs Bureau, leaving $8 billion going into the Federal Treasury.

We feel it is only fair that these net customs receipts be credited to the various modes in proportion to their contribution to the overall movement of the Nation's products in the export/import trade before any determination of the amount of fuel taxes, user charges, congestion fees, segment charges or lockage fees is judged to be necessary in compliance with the principle of "cost recovery" by the Federal Government.

We have undertaken some research in this area and we have come up with some figures that are indicated in the testimony.

We also would like to point out that this is not a precedent. By act of 1935, 30 percent of the customs' receipts now go to the Department of Agriculture for promoting exports.

Senator ABDNOR. What was that?

Mr. BARSCHDORF. For export promotion, sir.

Senator ABDNOR. Thirty percent?

Mr. BARSCHDORF. And that 30 percent I believe you will see is about $2.4 billion.

Noting these factors and also having made a study of the distribution by truck, rail, and waterways of the imports that come into the United States, we have come up with a figure that indicates that the allocation for the specific modes would be in the order of 17 percent rail, 17 percent highway, 16 percent navigable waterways and 10 percent airfields. This then, relating to the take just in 1979 of $8.5 billion, breaks down to $450 million in our Customs Bureau for the cost of operation; the Department of Agriculture gets $2.4 billion; the rails would get $1.36 billion; the highways $1.36 billion; navigable waterways $1.28 billion; and airfields $800 million; and back to the general fund would be $850 million. These funds, you will note, that $1.28 billion for navigable waterways covers what the corps just about spends each year. I think it is $1.3 billion that has been quoted here by some of your other testimony. This would not cover all, but it would cover practically all waterways construction and maintenance. The thought behind this proposal to you is that the cost, any cost over and above this $1.2 billion, would probably be adjusted under the user charge system, or whatever other way you have of taxing, or fuel charges.

By placing the annual customs' receipts allocated by each mode into a fund, that will assure that that fund is being used for purposes for which you see it used. We feel that the rail and highway portion could go into the Department of Transportation for a fund for the specific purpose of building rights of way and rail beds. Similarly, too, in the navigable waters and airfields, we feel by having this in a separate fund we would save a tremendous amount of expenses through the normal authorization and appropriations procedure of Congress through efforts on everybody's part, and that system we feel that it would give the transportation system a planning figure that they could rely upon each year, and as the custom's receipts grow these figures increase as well.

That is the gist of what I have to present, Mr. Chairman, and there is a suggested bill enclosure on this. We do not feel this is the panacea or answer to all our problems. We merely suggest it in connection with the last question that you asked—how would we properly assess these user charges in a fair and equitable manner?

Thank you.

Senator ABDNOR. Thank you, Mr. Barschdorf. We will have your testimony for the record and we appreciate it. It is another approach to the problem. If we have any questions, we would like to feel free to submit them to you to be answered in writing.

Mr. BARSCHDORF. Thank you.

Senator ABDNOR. There are also going to be statements from the Hardy Soil Co., The National Grange, and the National Taxpayers' Union that will be included in the record.

Senator ABDNOR. We will recess until Thursday at 10 o'clock.

[Whereupon, at 2 p.m., the subcommittee recessed, to reconvene subject to call of the Chair.]

STATEMENT BY
THE HONORABLE BILL ALEXANDER
TO THE
SUBCOMMITTEE ON WATER RESOURCES
SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
JUNE 16, 1981

Mr. Chairman and members of the Subcommittee, thank you for giving me an opportunity to add my views to those testifying on the issues now before you.

As an Arkansan, who grew up along the banks of the Mississippi River, inland waterways are a part of my heritage. As a private citizen and as a public official I have been interested in, concerned with and involved in developing and conserving our state and national water resources for a variety of purposes, including inland waterway transportation.

The National River Academy, which developed from a proposal I made shortly after coming to the Congress and which is primarily supported by inland waterways transportation companies, is located in First Congressional District which I represent.

River transportation plays a vital role in the economy of Arkansas as it does in the economy of the nation. It has a major national importance to our farmers, businesses and industries. Its influence on our nation's competitive position in international markets is substantial.

Arkansas is one of those states where there has been a serious dimunition of rail service, thus the availability, economic viability, and competitive position of inland waterway transportation is of special concern to us.

Because of the role rivers play in the life of Arkansans, I am particularly aware that the investments the Nation makes through the work of the Corps of Engineers serves a multitude of national purposes other than transportation.

In 1978 when the Congress imposed a new program of waterway user charges on the inland waterways transportation industry, it mandated a study of the impacts of these charges. That study has not been completed. I would urge the Subcommittee to defer any recommendation on these new proposals for levying additional charges on the industry until the data from that study is available to the Congress and the public.

I would urge that should new user charges be recommended for the purpose of recovering the cost of federal investments in support of transportation systems, the program be made applicable to all transportation systems, whether water, highway, rail or air. This is only fair and equitable. It would be necessary in order to insure that such a policy does not unfairly penalize one transportation system to the advantage of others.

Further, any system of user charges for this purpose should apply equally to all segments of the transportation system because these systems are, or should be, an integrated whole and because they serve the national interest and the burden should be distributed with that in mind.

Any user charges directed at recovering the full federal investment cost should be crafted in such a way as to insure that only those costs directly attributable to the transportation purpose involved are counted. For instance, the federal investments in inland waterways made through the Corps of Engineers serve a variety of national and regional interests. These include flood damage control, hydroelectric power generation, recreation, water supply, water quality protection, energy conservation, and the Nation's export trade interests.

In its consideration of the proposal for cost recovery legislation affecting inland waterways industry, I would urge the Subcommittee to carefully examine the potential impact on the economic activities which are heavy users of this transportation mode. For instance, proposals such as those before you now would adversely affect farmer income, since much of their product is moved by inland waterways and their position as sellers in the domestic and international market places would be damaged by the increased cost of transportation.

Further, the probable reduction of the numbers of inland waterways transportation firms would be anti-competitive. Also, it would intensify the competition for rail and truck service which have been chronically inadequate to respond to the Nation's product moving needs for more than a decade.

Finally, I would urge that, should the final decision be to recommend a new program of full cost recovery user charges for the inland waterways transportation industry, [redacted] that Congress [redacted] remain in control of the determination of the level of these charges and of when and where they will be imposed.

STATEMENT BY SENATOR J. BENNETT JOHNSTON BEFORE THE WATER RESOURCES SUBCOMMITTEE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
JUNE 16, 1981

MR. CHAIRMAN:

WHEN I FIRST CAME TO THE SENATE, SOME EIGHT YEARS AGO, THE UNITED STATES IMPORTED ABOUT 5 MILLION BARRELS OF OIL AND PETROLEUM PRODUCTS EACH DAY. AFTER THE OIL EMBARGO, THEN PRESIDENT NIXON DECLARED WE WOULD BE FREE OF OIL IMPORTS BY THE YEAR 1980, IN A LARGE MEASURE BY RELIANCE ON OUR COAL DEPOSITS. 1980 CAME AND WE STILL IMPORT 5.5 MILLION BARRELS PER DAY. THEN PRESIDENT CARTER CREATED NATIONAL ENERGY PLAN #1 WHERE WE WOULD GO FROM 665 MILLION TONS OF COAL PRODUCTION PER YEAR TO 1.2 BILLION TONS PER YEAR BY 1985. WE ALL KNOW UNLESS SOME DRASTIC CHANGES ARE MADE, WE WILL NEVER ACHIEVE THAT GOAL. THIS YEAR WE HAVE 100 MILLION TONS OF IDLE COAL CAPACITY WITH OVER 20,000 COAL MINERS UNEMPLOYED.

WHY DID THE GOALS OF PRESIDENT NIXON, FORD AND CARTER FAIL TO MATERIALIZE? THERE ARE A NUMBER OF REASONS, INCLUDING THE STRIP MINING ACT AND THE CLEAN AIR ACT, BUT THE PRINCIPLE REASON IS OUR LACK OF ADEQUATE EXPORT CAPABILITY.

AMERICA'S ENERGY FUTURE LIES IN ITS COAL RESOURCES.

WE HAVE AN ABUNDANCE OF COAL--27% OF THE WORLD'S KNOWN RESERVES, ENOUGH TO PROVIDE FOR OUR OWN ENERGY NEEDS FOR 3½ CENTURIES. THE UNITED STATES HAS ENOUGH COAL, NOT ONLY FOR OUR OWN USE BUT TO SELL TO THE REST OF THE WORLD. THE U. S. CAN EXPORT 300% MORE COAL THAN IT DOES

NOW, MEETING UP TO 25% OF WORLD COAL DEMANDS. IN DOING SO, WE DRAMATICALLY IMPROVE OUR BALANCE OF PAYMENTS PICTURE. IN 1980, THE TOTAL VALUE OF U. S. COAL EXPORTS WAS $4.5 BILLION (HELPING TO OFFSET THE $66.7 BILLION SPENT ON FOREIGN OIL). BY 1990, COAL EXPORTS CAN PROVIDE ANOTHER $10 BILLION.

IT IS EXPECTED THAT WORLD DEMAND FOR COAL COULD INDUCE U. S. EXPORTS TO GROW FROM THE 1980 RECORD OF 90 MILLION METRIC TONS TO 400 MILLION BY THE YEAR 2000.

WE HAVE THE RESOURCES AND THE MARKETS. WHAT WE ARE LACKING IS THE TRANSPORTATION INFRASTRUCTURE WHICH WILL ENSURE THAT WE CAN DELIVER OUR COAL TO ITS CONSUMERS. WE NEED MORE MODERN AND EFFICIENT PORTS, HARBORS AND SHIPPING SYSTEMS. IF WE DON'T ACT SOON, WE MAY FIND OURSELVES IN THE POSITION OF THE RUSSIAN GENERAL STAFF IN 1914. THE CZAR'S ARMY WAS THE LARGEST IN THE WORLD, BUT THE GENERALS COULDN'T MOVE THE MEN TO THE GERMAN FRONT BECAUSE THE RAILROAD GAUGES WERE THE WRONG SIZE.

WHAT ARE THE INDUSTRIALIZED WORLD'S ALTERNATIVES TO U. S. COAL?

WESTERN EUROPE AND JAPAN CAN CONTINUE AS THEY ARE, DEPENDENT ON OPEC OIL. THIS MEANS THEY MUST LIVE UNDER THE CONSTANT THREAT OF PRICE INCREASES AND INSTABILITY OF SUPPLY, THEIR FOREIGN POLICY HELD HOSTAGE BY THE POLITICS OF OIL.

OR THEY CAN PURCHASE COAL FROM OTHER SOURCES. AUSTRALIA, SOUTH AFRICA AND POLAND ARE CONCERNED ABOUT MAINTAINING THE RELIABILITY OF THEIR SOURCES AS THEY BECOME MORE DEPENDENT ON COAL. BEFORE SIGNING LONG-TERM CONTRACTS, THEY MUST CONSIDER THE POSSIBILITY OF

INTERRUPTIONS IN SUPPLY. SOUTH AFRICA IS SUBJECT TO BOYCOTTS BY SOME IMPORTING NATIONS BECAUSE OF ITS RACIAL POLICIES. AUSTRALIA HAS HAD LABOR DIFFICULTIES WHICH HAVE REDUCED PRODUCTION. POLAND'S RESERVES ARE NOT SO ABUNDANT OR EASILY MINED AS THOSE OF OTHER COUNTRIES, AND MAY BE FURTHER RESTRICTED BY SOVIET BLOC REQUIREMENTS. CURRENT PRICES DO NOT FAVOR U. S. COAL WHICH COSTS 20 to 30 PERCENT MORE DELIVERED IN WESTERN EUROPE AND JAPAN THAN AUSTRALIAN OR SOUTH AFRICAN COAL. THIS PRICE DIFFERENTIAL COULD BE SUBSTANTIALLY REDUCED BY MORE COST-EFFECTIVE DELIVERY SYSTEMS.

OR THE EUROPEAN NATIONS COULD PURCHASE RUSSIAN NATURAL GAS. THE SOVIETS ARE CURRENTLY NEGOTIATING WITH SIX WESTERN EUROPEAN COUNTRIES FOR THE CONSTRUCTION OF A SIBERIAN PIPELINE FOUR TIMES THE LENGTH OF THE ALASKAN OIL PIPELINE AND COSTING $10 TO $15 BILLION.

OBVIOUSLY, THE DEPENDENCE OF OUR NATO ALLIES ON THE SOVIETS FOR A SUBSTANTIAL PART OF THEIR ENERGY SUPPLY WOULD SERIOUSLY THREATEN THE ATLANTIC ALLIANCE. OUR ALLIES WOULD HAVE EXCHANGED THE OPEC SCIMITAR FOR THE COSSACK SWORD.

WHAT SHOULD WE DO TO INCREASE OUR EXPORTS?

IF WE CONSIDER THE COAL TRANSPORTATION DELIVERY SYSTEM FROM MINES TO USERS, WE CAN SEE THAT THE MAJOR BOTTLENECK IS DOCKSIDE. THE U. S. LACKS DEEP-WATER PORT FACILITIES. WITHOUT SUCH FACILITIES, WE CANNOT SERVICE THE NEW GENERATION OF GIANT BULK CARGO CARRIERS IN WHICH AN INCREASING SHARE OF THE WORLD'S COAL, AS WELL AS GRAIN AND OTHER ORES, IS BEING TRANSPORTED.

ECONOMIES OF SCALE DICTATE SHIPPING CONFIGURATIONS FOR BULK CARGO. WORLDWIDE, ALL EXPORTERS BUT THE UNITED STATES ARE PLAYING THE GAME. IMPORTING NATIONS HAVE ESTABLISHED DEEP-WATER PORTS AND SHORE-SIDE FACILITIES ALLOWING THE LARGE BULK CARRIERS TO TIE IN DIRECTLY TO LAND-BASED DELIVERY SYSTEMS. BY WAY OF CONTRAST, COAL AND GRAIN TO BE SHIPPED IN BULK CARRIERS FROM NEW ORLEANS MUST BE BARGED DOWN THE MISSISSIPPI RIVER TO DEEPER WATER WHERE THEY ARE LOADED ONTO THE CARRIERS. OIL COMING INTO THE PORT MUST BE LIGHTERED. THE PORT OF NEW ORLEANS IS NOT UNIQUE IN THIS RESPECT. MOST OTHER U. S. PORTS HAVE THE SAME PROBLEM.

TWENTY YEARS AGO, THE SMALL SHIP (WITH A DWT OF 15,000 TONS) DOMINATED THE COAL EXPORT TRADE. BY 1974, 6% OF THE WORLD COAL TRADE WAS CARRIED IN VESSELS OF 100,000 DWT. BY 1979, THIS FIGURE HAD GROWN TO 26%. NEW ORDERS FOR BULK CARRIERS INDICATE A CONTINUING SHIFT TO LARGER SHIPS. THERE ARE PRESENTLY NO EAST COAST OR GULF PORTS WHICH CAN ACCOMMODATE THESE SHIPS. AUSTRALIA AND SOUTH AFRICA HAVE DEVELOPED COAL-LOADING FACILITIES TO HANDLE THEM.

THE SMALL COLLIERS ARE AGING AND BECOMING MORE EXPENSIVE TO RUN. AS THE PRICE OF PETROLEUM BUNKER FUEL CONTINUES TO RISE, THERE IS GREATER DIVERGENCE BETWEEN THE COSTS OF OPERATING SMALL AND LARGE SHIPS.

PORTS WHICH MUST DEPEND ON SMALL SHIPS AND THE LIGHTERING OF BULK CARGO OFTEN FIND THEMSELVES INTOLERABLY CONGESTED. THE SHIPS OF ONE FRENCH COAL IMPORTER STOOD IDLE FOR THREE MONTHS IN HAMPTON ROADS WAITING TO BE LOADED. AS MY DISTINGUISHED COLLEAGUE SENATOR MATHIAS POINTED OUT, SUCH DELAY CAN ADD $500,000 TO THE COST OF ONE SHIPLOAD OF COAL. THE FRENCH SHIPPER CHOSE TO PAY DEMURRAGE CHARGES TO TAKE

DELIVERY OF HIS COAL. WE MUST ASK OURSELVES WHETHER THE UNITED STATES IS PREPARED TO PAY THE COSTS OF DELAYING ANY LONGER THE MODERNIZATION OF OUR PORTS AND HARBORS. IF WE DO NOT ACT NOW, WE FACE THE LOSS OF THE COAL TRADE TO NATIONS WHICH CAN DELIVER COAL MORE CHEAPLY, AND THE POSSIBILITY THAT OUR ALLIES WILL BE FORCED TO JEOPARDIZE THEIR POLICY INDEPENDENCE IN ORDER TO SECURE THEIR ENERGY SUPPLIES.

WHAT S. 828 DOES

WE HAVE A TREMENDOUS OPPORTUNITY TO BECOME A MAJOR EXPORTER OF ENERGY, BUT THIS OPPORTUNITY MAY WELL BE LOST IF THE CONGRESS DOES NOT ACT QUICKLY TO MAKE VITAL NAVIGATION IMPROVEMENTS AT OUR PORTS AND HARBORS. LAST DECEMBER, IN AN EFFORT TO RESOLVE SOME OF THESE PROBLEMS FACING OUR NATION'S PORTS AND HARBORS, SENATOR WARNER AND I, ALONG WITH A NUMBER OF OUR COLLEAGUES, INTRODUCED S. 3247, THE PORTS AND NAVIGATIONAL IMPROVEMENTS ACT OF 1980. THIS LEGISLATION WAS DESIGNED TO AID AND ASSIST PROMPT MOVEMENT OF BULK COMMODITIES, PARTICULARLY COAL, IN AMERICA'S EXPORT HARBORS. EARLIER THIS SESSION, I INTRODUCED S. 828, ALONG WITH SEVERAL OF MY COLLEAGUES, WHICH IS ESSENTIALLY THE SAME AS S. 3247 WITH A FEW MODIFICATIONS AS A RESULT OF COMMENTS AND OTHER SUGGESTIONS WHICH WERE INCORPORATED IN THE BILL.

WE BELIEVE THIS BILL IS OF VITAL IMPORTANCE TO THE ECONOMIC WELL-BEING OF OUR NATION, OUR PORTS AND HARBORS, AND OUR VIABILITY TO COMPETE SUCCESSFULLY IN THE WORLD TRADE ARENA.

S. 828 DECLARES AND RECOGNIZES THE VITAL IMPORTANCE OF PORTS AND HARBORS TO THIS COUNTRY'S ECONOMY AND NATIONAL DEFENSE, AND THE WORLD'S ECONOMY AND ENERGY SELF-SUFFICIENCY, AND AUTHORIZES EXPEDITIOUS CONSTRUCTION OF ESSENTIAL RIVER AND HARBOR IMPROVEMENTS IN ORDER TO PROMOTE DOMESTIC COMMERCE AND UNITED STATES EXPORT CAPABILITIES FOR COAL, AGRICULTURAL COMMODITIES, MANUFACTURED GOODS FOR EXPORT, AND OTHER COMMODITIES.

MY GOOD FRIEND AND COLLEAGUE FROM VIRGINIA, SENATOR WARNER, ALSO RECOGNIZES THE URGENCY OF THIS SITUATION AND WILL HIMSELF INTRODUCE SIMILAR LEGISLATION IN THE NEAR FUTURE.

WE MUST ACT, AND ACT QUICKLY, IF WE ARE TRULY SERIOUS IN OUR DESIRE TO IMPROVE OUR EXPORT CAPABILITY. THIS BILL IS THE FIRST STEP.

S. 828 PROVIDES BOTH SPECIFIC AUTHORIZATION AS WELL AS GENERIC AUTHORITY. IT WOULD ALLOW ANY OF OUR NATION'S DEEP-DRAFT PORTS AND HARBORS TO AVAIL ITSELF OF THE BILL'S VARIOUS PROVISIONS REGARDLESS OF THE TYPE OF CARGO WHICH IS EXPORTED OR IMPORTED THROUGH ITS FACILITIES. THE BILL AUTHORIZES AND DIRECTS EXPEDITED PROCEDURES UNDER WHICH NAVIGATION IMPROVEMENTS ARE TO BE ACCOMPLISHED.

SPECIFICALLY, THE BILL WOULD AUTHORIZE IMPROVEMENTS TO A MINIMUM DEPTH OF 55 FEET AT NORFOLK, MOBILE HARBORS, AND DEEP-DRAFT ACCESS TO NEW ORLEANS AND BATON ROUGE. THESE PORTS, TOGETHER WITH BALTIMORE AND PHILADELPHIA, ARE THE MAJOR EXISTING COAL-SHIPPING PORTS ON THE EAST AND GULF COASTS. BALTIMORE HAS ALREADY BEEN AUTHORIZED FOR CONSTRUCTION, AND THE REQUIRED STUDIES ON THE OTHER PORTS SPECIFIED IN THE BILL HAVE BEEN COMPLETED OR NEARLY COMPLETED.

SOME MAY ASK, "WHY SPECIFY ONLY THESE PORTS," AS IDENTIFIED IN THE BILL? THE ANSWER IS SIMPLY, "BECAUSE THEY ARE FURTHER ALONG IN THE PROCESS AND HAVE BEEN UNDER STUDY AND REVIEW FOR SEVERAL YEARS." THIS INCLUDES THE ENVIRONMENTAL STUDIES, THE ECONOMIC STUDIES WITH COST BENEFIT ANALYSIS, AND SOME PRELIMINARY ENGINEERING AND DESIGN. BY NAMING THESE PORTS, THE REDUCTION IN TIME UNTIL A CONSTRUCTION START MIGHT BE AS MUCH AS FOUR TO FIVE YEARS.

GIVEN THAT THESE PORTS ARE HISTORICAL COAL-SHIPPING PORTS WITH EXTENSIVE COAL HANDLING FACILITIES AND TRANSPORTATION INFRASTRUCTURES IN PLACE, CONSIDERABLE ADVANTAGE PREVAILS OVER OTHER POTENTIAL PORTS THAT HAVE BEEN IDENTIFIED FOR STEAM COAL EXPORT. ON-GOING AND PLANNED EXPANSION OF COAL HANDLING FACILITIES AT THE EXISTING PORTS OF HAMPTON ROADS, MOBILE AND NEW ORLEANS, FOR WHICH STUDIES AND REPORTS ARE IN THE ADVANCE STAGE OF DEVELOPMENT AND REVIEW, ALONG WITH BALTIMORE, APPEAR TO OFFER THE FASTEST AND MOST DIRECT ROUTE TO IMPROVEMENT OF STEAM COAL EXPORT CAPABILITY WITHIN THE U. S. PORT SYSTEM. THE CORPS OF ENGINEERS HAS ALREADY DEMONSTRATED THE SOUNDNESS OF IMPROVING THESE PORTS ON THE BASIS OF RIGOROUS ENGINEERING, ECONOMIC, AND ENVIRONMENTAL CRITERIA.

WHILE OTHER PORTS EXHIBIT POTENTIAL CAPABILITY FOR FUTURE STEAM COAL EXPORTS, CURRENT STUDIES BY THE CORP OF ENGINEERS AT SOME PORTS LOCATIONS ARE NOT SUFFICIENTLY ADVANCED TO DETERMINE THEIR IMPROVEMENT FEASIBILITY, COST OR BENEFIT. HOWEVER, WHERE SUCH STUDIES ARE UNDERWAY OR AUTHORIZED, THE SAME ECONOMIC, ENGINEERING AND ENVIRONMENTAL CRITERIA IS OR WILL BE APPLIED.

FOR THESE SPECIFIED PARTS (SECTION 4) OF S. 828, SUCH IMPROVEMENTS SHALL BE AT A MINIMUM DEPTH OF 55 FEET, SUBJECT TO CONDITIONS DETERMINED BY THE CHIEF OF ENGINEERS TO PROTECT/MINIMIZE HARM TO THE AREA'S ENVIRONMENT, AND IN ACCORDANCE WITH PLANS WHICH THE CHIEF DETERMINES TO BE ADVISABLE.

THESE IMPROVEMENTS MAY BE ACCOMPLISHED EITHER AS SEPARABLE PROJECTS OR AS SEPARABLE UNITS/FEATURES WITHIN A PROJECT WITH AGREEMENTS WITH NON-FEDERAL INTERESTS PROVIDING FOR NON-FEDERAL COOPERATION.

PRIOR TO START OF CONSTRUCTION OF ANY OF THE SPECIFIED PROJECTS, AND WITHIN ONE YEAR OF ENACTMENT OF THIS LAW, THE CHIEF SHALL SUBMIT A FINAL ENVIRONMENTAL IMPACT STATEMENT TO CONGRESS DEMONSTRATING COMPLIANCE, AS DETERMINED BY THE CHIEF, WITH STATUTORY REQUIREMENTS DETERMINED TO BE PERTINENT BY HIM TO INCLUDE THE NATIONAL ENVIRONMENTAL POLICY ACT, THE CLEAN WATER ACT, AND THE FISH AND WILDLIFE COORDINATION ACT.

WITHOUT FURTHER ACTION UNDER ANY STATUTORY REQUIREMENT ADDRESSED IN THE FINAL ENVIRONMENTAL IMPACT STATEMENT, CONSTRUCTION SHALL BE UNDERTAKEN UNLESS CONGRESS DISAPPROVES SUCH STATEMENT BY CONCURRENT RESOLUTION, WITHIN 60 CALENDAR DAYS OF RECEIPT OF SUCH STATEMENT.

SECTION 5 PROVIDES THAT THE SECRETARY OF THE ARMY, ACTING THROUGH THE CHIEF OF ENGINEERS, IS AUTHORIZED TO DEVELOP, IMPROVE, AND MAINTAIN THE NATION'S RIVERS, HARBORS, AND OTHER WATERWAYS AT SUCH DEPTHS AND WITH SUCH FACILITIES AS THE SECRETARY DETERMINES IN HIS DISCRETION TO INSURE THE SAFE AND EFFICIENT TRANSPORTATION OF DEFENSE, FOREIGN AND DOMESTIC COMMERCE.

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SUCH WORK SHALL BE PROSECUTED AT FEDERAL EXPENSE SUBJECT ONLY TO THE REQUIREMENTS OF NON-FEDERAL COOPERATION ENACTED BY CONGRESS OR DETERMINED BY THE SECRETARY APPLICABLE IF THIS WORK HAD BEEN SPECIFICALLY AUTHORIZED BY CONGRESS.

SECTION 6. IMPROVEMENTS AUTHORIZED IN SECTION 5 SHALL BE SUBJECT TO THE SAME ENVIRONMENTAL PROTECTION, PROCEDURES AND CONDITIONS AS PROJECTS AUTHORIZED UNDER SECTION 4 EXCEPT THAT THE FINAL ENVIRONMENTAL IMPACT STATEMENT SHALL BE SUBMITTED TO CONGRESS WITHIN ONE YEAR OF THE DATE OF COMPLETION OF THE DRAFT STATEMENT.

SECTION 7. ENVIRONMENTAL IMPACT STATEMENTS REQUIRED UNDER THIS ACT SHALL NOT BE SUBJECT TO JUDICIAL REVIEW UNDER ANY LAW, EXCEPT THE FOLLOWING CLAIMS, IF TIMELY, MAY BE FILED IN A U. S. DISTRICT COURT WHERE THE IMPROVEMENT IS TO BE LOCATED.

A. THOSE ALLEGING INVALIDITY OF THIS ACT, IF FILED WITHIN 60 DAYS OF ITS ENACTMENT.

B. THOSE ALLEGING THAT AN ACTION WILL DENY RIGHTS UNDER THE U. S. CONSTITUTION OR IS BEYOND THE SCOPE OF AUTHORITY OF THIS ACT, IF BROUGHT WITHIN 60 DAYS OF SUCH ACTION.

THIS COURT SHALL:

A. HAVE EXCLUSIVE JURISDICTION OVER SUCH CLAIMS.

B. ASSIGN THE PROCEEDING FOR HEARING AT THE EARLIEST POSSIBLE DATE.

C. GIVE IT PRECEDENCE OVER ALL PENDING DOCKET MATTERS AND EXPEDITE IN EVERY WAY.

D. NOT HAVE JURISDICTION TO GRANT INJUNCTIVE RELIEF AGAINST SUCH ACTION EXCEPT IN CONJUNCTION WITH FINAL JUDGMENT ENTERED IN THE CASE.

REVIEW OF ANY ORDER, DECREE OR JUDGMENT OF THE COURT MAY BE HAD ONLY UPON DIRECT APPEAL TO THE U. S. SUPREME COURT.

SECTION 8. PROVIDES FOR EXPEDITED FEDERAL PERMITS FOR CONSTRUCTION AND MAINTENANCE.

SECTION 11. APPROPRIATIONS AS NECESSARY ARE AUTHORIZED TO THE SECRETARY OF THE ARMY. PENDING SUCH APPROPRIATIONS, THE SECRETARY, ACTING THROUGH THE CHIEF OF ENGINEERS, MAY ALLOT SUMS FROM EXISTING DEPARTMENT OF THE ARMY CIVIL WORKS APPROPRIATIONS FOR THE IMMEDIATE PROSECUTION OF ADVANCED ENGINEERING AND DESIGN AND OTHER NECESSARY STUDIES.

S. 828 RECOGNIZES THE NEED FOR THE CONTINUED FEDERAL INVOLVEMENT IN THE DEVELOPMENT OF NAVIGABLE WATERWAYS AND CHANNELS INTO OUR PORTS AND HARBORS. IN SUMMARY, S. 828 BUILDS ON THE CURRENT FEDERAL AND NON-FEDERAL RESPONSIBILITY FOR THE DEVELOPMENT AND MAINTAINING OF OUR PORTS AND HARBORS AND RELATED LAND-SIDE FACILITIES. IT PROVIDES FOR AN EXPEDITED PROCESS FOR NAVIGATION IMPROVEMENTS; EXPEDITED ENVIRONMENTAL REVIEW OF PROPOSED PROJECTS; EXPEDITED CONGRESSIONAL REVIEW OF PROPOSED PROJECTS; EXPEDITED JUDICIAL REVIEW OF CLAIMS FILED AGAINST PROJECTS; AND EXPEDITED PROCESS FOR SHORE-SIDE FACILITIES AND REQUIRED PERMITS. THIS PROPOSED LEGISLATION WOULD NOT OBVIATE ANY OF THE CURRENT ENVIRONMENTAL, CONGRESSIONAL, JUDICIAL OR OTHER REVIEW REQUIREMENTS. IT WOULD MERELY SPEED THEM UP SO THAT PROJECTS MAY BE COMPLETED AS EXPEDITIOUSLY AS POSSIBLE, SUBSTANTIALLY REDUCING CURRENT COMPLETION TIMES.

I AM COGNIZANT OF OTHER LEGISLATIVE PROPOSALS WHICH HAVE BEEN INTRODUCED ON THIS SUBJECT, INCLUDING THE ADMINISTRATION'S PROPOSALS. MOST OF THESE PROPOSALS WOULD SEVERELY ALTER THE TRADITIONAL FEDERAL AND NON-FEDERAL RESPONSIBILITIES FOR NAVIGATION IMPROVEMENTS. MOST OF THESE PROPOSALS ARE FILLED WITH PROVISIONS WHICH WOULD ABROGATE THROUGH UNILATERAL CHANGES BOTH LEGAL AND IMPLIED CONTRACTUAL RESPONSIBILITIES ENTERED BY NON-FEDERAL PARTIES OVER MANY, MANY YEARS. THESE PROPOSALS RAISE MANY PROBLEMS WHICH CAN ONLY DELAY BRINGING ON LINE NEEDED, NEW IMPROVEMENTS AS QUICKLY AS POSSIBLE. I RECOGNIZE AND SUPPORT EFFORTS TO REDUCE THE FEDERAL BUDGET AND I WOULD POINT OUT THAT THE PROPOSED IMPROVEMENTS AT OUR EXISTING COAL EXPORTING PORTS CAN BE UNDERTAKEN IN AN EXPEDITED MANNER WITHIN THE CURRENT TOTAL LEVEL OF INVESTMENT IN WATER RESOURCES DEVELOPMENT BY THE CORPS OF ENGINEERS. CURRENTLY, ABOUT $1.5 BILLION IS BEING APPROPRIATED FOR THE CONSTRUCTION, GENERAL ACCOUNT OF THE CORPS. WITH THE COMPLETION OF ON-GOING WORK IN THE NEXT COUPLE OF YEARS, SUFFICIENT ROOM WOULD BE AVAILABLE IN THE BUDGET AT CURRENT LEVELS OF INVESTMENT TO ACCOMMODATE EXPENDITURES OF ABOUT $250 MILLION ANNUALLY WITHOUT INCREASING THE OVERALL LEVEL OF INVESTMENT IN WATER RESOURCES CONSTRUCTION UNDER THE CORPS' JURISDICTION.

BECAUSE OF THE OVERRIDING NATIONAL INTERESTS, OUR PORTS AND NAVIGATION SYSTEMS MUST RECEIVE FOREMOST CONSIDERATION AND I URGE THE COMMITTEE TO CAREFULLY CONSIDER S. 828 AND OTHER SIMILAR PROPOSALS, BEARING IN MIND WHETHER SUCH PROPOSED CHANGES ARE TRULY IN THE NATIONAL INTEREST.

TESTIMONY
BY
THE AMERICAN WATERWAYS OPERATORS, INC.
BEFORE THE
SENATE ENVIRONMENT AND PUBLIC WORKS COMMITTEE'S
WATER RESOURCES SUBCOMMITTEE

Mr. Chairman, we appreciate the opportunity to appear before your subcommittee to discuss S. 809 and S. 810, bills to provide cost recovery for both deep-draft and shallow-draft water transportation. Today, representatives of The American Waterways Operators, Inc., the national trade association representing the inland and coastal barge and towing industry, will comment specifically on S. 810.

AWO consists of 250 towing companies and over 70 shipyards and ship repair facilities who service the coastal and inland fleets. The barge and towing industry brings direct service to 41 states over the 25,543 miles of navigable waterways.

Our industry is proud of the role we play in helping to develop our country's economy. As Senators Stafford and Chafee will recognize, the National Transportation Policy Study Commission, on which they served, succinctly stated the contribution of transportation by saying it "supports the nation's social and economic activities, and, in turn, transportation stimulates these activities."

The barge and towing industry supports President Reagan's economic recovery program to bring inflation and government spending under control and turn the economy in a "new direction." However, the industry has serious reservations about the requirements and potential impact of the specific proposals to implement dramatic new user charges for the waterways industry. We believe that the issue of waterway user charges is inappropriately integrated into the President's economic recovery program.

Waterway user charges are an issue relating to national transportation policy, specifically the question of federal support of the transportation modes, all of which have received and continue to receive federal funding. This inappropriate integration of waterway user charges into the economic recovery program has resulted in the proposal of several ill-advised cost-recovery plans which would, in fact, undermine the goals of our national transportation policy — specifically, balance and equitable relationship among the surface transportation modes.

Congress enacted user taxes for the inland waterways in 1978 with the passage of P.L. 95-502, and its Inland Waterways Revenue Act Title. Under this law, a tax was placed on diesel fuel used for commercial navigation on 26 segments of U.S. inland and intracoastal waterways. The tax began at a rate of 4¢ per gallon on October 1, 1980, and is scheduled to increase in increments to 10¢ per gallon in 1985.

Congress, unsure of the effects such taxes would have on the nation's transportation system, mandated a comprehensive study to determine their impact. The Departments of Commerce and Transportation and other agencies are in the final stages of three years of work on this study, which is scheduled to be delivered to Congress by this September 30.

Ironically, Mr. Chairman, you are now being asked to adopt and implement new user fees prior to completion of the study you mandated.

Thus, we are recommending deferral of action on S. 810. We feel no action should be taken until completion and review of the Inland Waterways User Tax Impact Study. To support this recommendation, we draw your attention to a letter addressed to their colleagues signed by Senators Danforth, Heinz, Dixon and Long, as well as Senator Bentsen, who is a member of this committee, urging the Senate "to withhold judgement on this proposal until more information can be gathered on its impact...we don't really know how dramatic the effect will be, but the mandated study is currently addressing that very question." (See Attachment A)

In addition, the bipartisan report of the House Public Works and Transportation Committee to the House Budget Committee stated that "it is premature to suggest the imposition of a substantial increase" in the Inland Waterway User Charge. "Such fees in some account may be in order but the magnitude of such fees should be set only after completion of the Inland Waterway User Charge Tax Study required by Section 205."

Now, Mr. Chairman, before you hear from representatives of The American Waterways Operators (AWO) today, we would like to remind this Committee of the important part the inland waterways industry plays in this nation's transportation system.

The barge and towing industry consists of approximately 1,800 operating companies; hundreds of thousands of people are directly dependent upon it for their livelihood. The industry's fleet consists of 4,380 towboats and tugs, 24,037 dry cargo barges, and 3,946 tank barges.

Last year, the industry moved nearly 700 million tons of freight, which represented almost two-thirds of all domestic waterborne traffic. Over 60 percent of barge tonnage is energy-related — petroleum, petroleum products and coal. In addition, the industry moved over 60 million tons of grain and grain products. Other major barge commodities include building materials (sand and gravel), chemicals, and iron and steel products.

When you see boats and barges pushing products along our country's rivers, lakes, intracoastal waterways and canals, remember that water transportation affects this nation in a positive way, every day. In some form, it brings Americans the essentials for living — food for their tables, gasoline for their cars, coal for electricity, and a wide assortment of building products. Millions of tons of raw materials -- such as grains and other agricultural products, petroleum, limestone, lumber, and fertilizers — travel by barge. Once processed, many of these commodities become the staples of daily life.

Water transportation costs less and uses less energy than any other means of commercial transportation. These savings are passed on to consumers. The fact is that the domestic water transportation industry helps fight inflation, save energy, bolster the economy and protect the environment.

The barge and towing industry has established an excellent reputation for being responsive to the needs of America's shippers and consumers. It is fuel-efficient, cost-effective and highly productive. The industry has assumed a major role in moving the nation's freight, particularly bulk commodities representing the lifeblood of America's economy, the fibre of its industrial and agricultural strength.

The barge and towing industry is flexible enough to respond quickly to new transportation demands. For example, this industry has played an every-increasing role in the movement of U.S. grain to export points along the Gulf of Mexico and the Pacific Northwest. In 1973, the barge and towing industry moved 20 percent of all grain exports to oceangoing ports. Today, this share has increased to over 40 percent.

The attached series of maps depicts the major wheat, corn and soybean producing areas of the United States in relation to our navigable inland waterways. These maps show the close relationship between grain production and the waterways, which makes possible the sale of much of these grain products overseas. (See Attachment B)

While the inland waterways industry moves about 12 percent of the nation's total freight, it does so at only 2 percent of the total cost of the nation's freight bill. For those shippers with access to barge transportation — and 87 percent of our nation's major cities are located on navigable waterways — it is the preferred choice for economical movement of bulk goods.

An added advantage is the excellent safety record of barge transportation. An Arthur D. Little, Inc., study of hazardous substance transportation revealed that barge spills occur less frequently than rail or truck spills by a significant margin. In addition, barge transportation results in less exposure of hazardous substances to urban areas, thus offering the least threat of property damage in the event of a spill.

As for modal fuel efficiency, a recent study shows that, on the average, barges carry a ton of freight 514 miles on one gallon of fuel. The corresponding figures for rails and trucks were 202 miles and 59 miles, respectively. The study was careful to take into account the question of "circuity" (the fact that barge tows must follow winding rivers).

While these figures confirm the superior fuel efficiency of barging, they emphasize that all bulk transport modes make a significant contribution to the nation's transportation system, and all are deserving full recognition as energy savers. The different modes must work cooperatively to move the products that fuel America's industries and utilities, and carry the fruits of this country's labor to domestic and foreign markets.

The essence of the barge and towing industry's message is that our nation's transportation system must be one of cooperation and balance. And we hope that this Committee and Congress will keep our nation's freight transportation system as it is — the best in the world. It requires a recognition that each mode of transportation offers certain advantages, and that these advantages must be maximized in a comprehensive system.

In light of this, the barge and towing industry questions the advisability of surging ahead with untried programs for waterway cost recovery without knowing the effect these programs will have on our balanced transportation system and the standard of living which depends upon it. Such change cannot be instituted in one year and it cannot be made in a way which would immediately disrupt one mode or another to its immense disadvantage and to the immense competitive advantage of another mode. This is the core of the problem with which we must deal. The thrust of taxes which immediately alter competitive positions is a much more serious problem than the philosophical reasons put forth as the justification for such taxes.

In fact, in his February 18 address to Congress, President Reagan stated that the revenue raising power of government must be used only to pay for legitimate governmental purposes; it should not be used to cause social or economic change. We do not believe S. 810 supports that statement.

It is important to understand that the abandonment of 200 years of national policy on waterways improvements cannot be excused with the simple statement that economic and competitive forces will eventually solve the problem. The fact is that the Administration's proposal would erect a new set of anti-competitive forces and a new host of false economic bases.

Any substantial change to our nation's transportation policy must be equitable in its application to all transportation modes and must be phased in over a period of time sufficient to allow changes in traditional economic patterns without severe loss to the industries involved, without a loss of employment that cannot be absorbed in other sectors, and without creation of artificial economic advantages to one mode or another.

In addition, we call your attention to a critical concern of the waterways industry which has not been properly addressed. Not only would the industry be burdened by the impacts of S. 809 and S. 810 but also the Administration is proposing that up to $500 million a year be recovered for various Coast Guard services. We ask you to recognize and consider the aggregate effect all of these cost-recovery proposals, if enacted, would have on the domestic water-carrier industry. The combined effect of all three proposals would seriously challenge the industry's ability to sustain its operations and serve the nation's shippers.

Before expressing our specific recommendations, allow me to address a phantom issue which I am sure this subcommittee will be facing, namely, the argument that other modes of transportation, specifically the railroads, do not receive federal subsidies. (See Attachment C)

The Office of Management and Budget reported earlier this month "federal taxpayers directly subsidized the rail industry pension plan by 350 million dollars annually. This current taxpayer subsidy equals $700 per rail employee. The rail industry seeks to double this windfall subsidy." And I draw your attention, Mr. Chairman, to the last word of the report by OMB: "Subsidy". In addition, Congressman Jim Florio, Chairman of the Transportation Subcommittee of the House Energy and Commerce Committee, the Subcommittee with jurisdiction over the rail industry, recently commented: "Government in the last five years has spent some 11 billion dollars in railroad subsidies." Again, Mr. Chairman, I draw your attention to the word: "Subsidies."

Congress is considering the question of increasing the federal subsidy to Conrail, an organization that alone has already consumed $3.8 billion dollars in authorized federal subsidies -- almost two-thirds of the amount the government has spent on commercial shallow-draft navigation since 1824. For comparative purposes, you should be aware that approximately $6 billion dollars of federal expenditures is attributable to shallow-draft barging since 1824.

The barge and towing industry feels strongly that it is inequitable to single out one mode of transportation to reimburse the federal government for expenditures which benefit that mode, while other transportation modes receive substantial unreimbursed federal subsidies. This industry should not have to bear the burden of fully reimbursing the federal government for its investment in the waterway system, while other modes do not fully reimburse the government for federal investments made exclusively for their benefit.

As stated earlier, placing an inequitable burden on only one mode of transportation will cause a sudden and massive switch by the nation's shippers to other modes. These shifts could cause serious disruptions in the flow of commerce, particularly in the movement of current and projected increased volumes of grain and coal to export ports.

Additionally, these increases in user fees could cause unexpected, unfavorable impacts in various regions of this country, and adverse economic effects on other national goals. For example:

- As mentioned earlier, barge transportation currently moves some 40 percent of the grain which is carried to U.S. ports for export. The low cost and high efficiency of water transportation keeps our nation's farmers competitive in the world market, thus improving the U.S. balance of payments;

- Higher transportation costs will affect movement of coal to domestic and export markets as well, effectively diminishing the economic advantages of the nation's switch from oil and gas to coal;

- o High transportation costs would reduce the ability of domestic steel and other commodities to compete with imports; and

- o Negative impacts would occur in the movement of northbound commodities by water, including fuel oils to utilities. farmers and homeowners; raw materials for manufacturing plants; and fertilizers and chemicals to farmers and other users.

In addition, the combination of two recent developments -- rail deregulation and the increasing concentration of power within the rail industry through mergers, in conjunction with an increase in waterway user taxes — would drastically reduce competition between the transportation modes. This would result in less transportation efficiency for the shipper and for the consumer.

The improved waterway system of the United States is a shared resource, serving not only commercial navigation, but environmental enhancement, flood protection, municipal and industrial water supplies, recreation, fish and wildlife enhancement, hydroelectric power generation, irrigation, national defense, facilitation of export expansion and regional development.

It should be noted here that dredging costs have risen dramatically. In the St. Paul District of the Upper Mississippi River, for example, the cost has increased from less than 50 cents per cubic yard in 1970 to over $9.50 per cubic yard in 1980, a more than 18-fold increase, far surpassing the rate of inflation. (See Attachment D)

This increase in dredging costs can be explained by numerous environmental laws and regulations which, in prescribing various dredging criteria and methods, have caused a costly increase in dredging operations, a cost increase shared by every citizen in the

United States. (See Attachment E)

At the same time that dredging costs were rising, dredging activity diminished substantially, dropping from 2.26 million cubic yards dredged in 1970 to .25 million cubic yards in 1980. As a result, channel blockages occur more frequently, and in effect, this nation is paying more for less dredging.

Dredging is one of the more visible programs undertaken by the U.S. Army Corps of Engineers, but, as noted above, federal expenditures for our waterways system benefit numerous users. In fact, in a recently completed preliminary study, the Corps of Engineers revealed that 25 to 30 percent of federal investment in the waterway system now charged to commercial navigation for budgetary purposes, is non-navigation in nature. This initial Corps study proves that our waterways system has many beneficiaries in addition to commercial navigation. (See Attachment F)

In fact, Mr. Chairman, the entire Tennessee Congressional delegation has urged postponing consideration of full cost-recovery legislation until the Corps of Engineers undertakes a detailed and complete study to identify the beneficiaries of "navigation" projects.

In a recent letter to Secretary of the Army John O. Marsh, the Tennessee delegation expressed concern about the impact of the Administration's proposal (S. 810 and H.R. 2962) to recover all expenditures for operation, maintenance and construction projects on waterways with a depth of 14 feet or less. "The major flaw in this proposal is that it fails to recognize that waterways are shared by a large number of other users in addition to commercial barges and towboats," the letter said.

"The only equitable approach to this problem is to require the Army Corps of Engineers to conduct a full and complete investigation of all uses and beneficiaries associated with projects authorized for navigation exclusively as well as for those projects which feature navigation as one of its purposes," the letter continued.

Upon completion of the study, the letter said, the Corps should recommend a level of cost allocation for each beneficiary; a method of cost recovery that is "cost effective, equitable, and causes minimum disruption to the water transportation industry"; a procedure for reporting and collecting fees; and the estimated cost of implementing the collection system.

It also suggested that the study director recommend to Congress "the most cost effective method by which authorizations and appropriations for major rehabilitation and new construction can be accomplished."

The Tennessee delegation called for completion of the study within one year, and urged that "during this period there should be no increases in existing waterway user taxes and no consideration of new legislation which calls for full cost recovery or any arbitrary level less than full recovery." (See Attachment G)

We endorse the views of the entire Tennessee delegation and feel that to single out one beneficiary -- commercial inland navigation -- to bear the burden of paying a user tax to recover costs which accrue to a variety of beneficiaries is not only inequitable but also places the barge operators in the unique role of subsidizing those who share the system with them — in effect, taking over a portion of the federal government's role.

Mr. Chairman, this committee will be hearing today from four members of The American Waterways Operators, Inc. Each of these gentlemen will tell you how this proposed legislation impacts upon the part of the country in which he operates. The speakers, to be introduced by AWO President Anthony L. Kucera, are: (1) Mississippi River System operations, John W. Lambert, Chairman of the Board, Twin City Barge, Inc., South St. Paul, MN (See Attachment H); (2) Gulf Coast and Gulf Intracoastal Waterway operations, A. L. Wilson, President, Dixie Carriers, Inc., Houston, TX (See Attachment I); (3) Atlantic Coastal operations, Robert E. Sanders, Turecamo Coastal and Harbor Towing Corp., Clifton, Staten Island, NY (See Attachment J); and (4) West Coast and Columbia-Snake River operations, Lester C. Bedient, Senior Vice President, Crowley Maritime Corporation, San Francisco, CA. (See Attachment K)

These members of the barge and towing industry will be happy to answer any questions you have today or in the future. Our Association and its members stand ready to meet with you, with members of the Administration, with spokespersons for our competitors, and with public groups, to help assemble the framework to effect a "new direction" for our economy as President Reagan proposes.

We stress, though, that this change to a "new direction" must be accomplished thoroughly and with a full accounting of the real costs and benefits involved for highways, railroads and waterways.

Mr. Chairman, the waterways industry strongly believes that this committee and Congress should consider new fees and taxes only under the following conditions:

- After completion of a careful study of their ramifications on affected industries, in particular, and the economy of the United States, in general;
- Equitable application to all competing transportation modes in order to avoid marketplace distortions and wholesale disruption of established trade patterns;
- Accurate identification of the various beneficiaries of a given federal program, and recovery only of those expenditures for services required by the beneficiaries;
- Consultation ensured for those paying user charges on how the funds are spent by the government; and
- Authorization for taxing to remain with Congress and not be delegated to Executive Branch departments and agencies.

In conclusion, the barge and towing industry has always demonstrated a spirit of cooperation and a willingness to shoulder its responsibilities. We ask only that our obligations be reasonable, equitable and consistent with the goal of improving this nation's freight transportation system.

ATTACHMENT A

AP
APR 10 1981
THE AMERICAN WATERWAYS
OPERATORS, INC.

WILLIAM V. ROTH, JR., DEL., CHAIRMAN
CHARLES H. PERCY, ILL.
TED STEVENS, ALASKA
CHARLES MCC. MATHIAS, JR., MD.
JOHN C. DANFORTH, MO.
WILLIAM S. COHEN, MAINE
DAVID DURENBERGER, MINN.
MACK MATTINGLY, GA.
WARREN B. RUDMAN, N.H.
THOMAS F. EAGLETON, MO.
HENRY M. JACKSON, WASH.
LAWTON CHILES, FLA.
SAM NUNN, GA.
JOHN GLENN, OHIO
JIM SASSER, TENN.
DAVID PRYOR, ARK.
CARL LEVIN, MICH.
JOAN M. MC ENTEE, STAFF DIRECTOR

United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, D.C. 20510

April 7, 1981

Dear Colleague:

The Administration has sent a proposal to the Congress recommending substantial increases in waterway user fees. The proposal calls for authorizing the Corps of Engineers to impose various fees on waterway users in addition to barge fuel taxes previously approved by Congress. These fees include license fees, waterway segment charges based on vessel capacity or tonnage carried, lockage fees and congestion fees. The Administration proposes to impose these additional fees beginning on October 1, 1981.

In 1978, the Congress enacted the present program of waterway user fees after a long, hard-fought battle. This program imposed, for the first time, a fuel tax of 4¢ per gallon, effective just five months ago in October, 1980, rising to 10¢ per gallon by 1986. Perhaps more important, the legislation called for a study to analyze the effect of these fees on the competing elements of the freight industry--railroads, trucks and barges. This study should be completed by the end of this year.

The Administration's proposal is a radical departure from the scheme adopted by the Congress. There can be little doubt that such a drastic increase in fees imposed upon one mode of transportation over such a short period of time will have significant impact on the competitive balance within the industry. We don't really know how dramatic the effect will be, but the mandated study is currently addressing that very question.

There is no indication whatsoever that the Administration seeks to disadvantage one particular mode of transportation, but that seems likely to be the effect of this proposal. Therefore, we urge you to withhold judgment on this proposal until more information can be gathered on its impact, or until one of us has had an opportunity to discuss it with you personally.

Thank you for your attention.

Sincerely,

Lloyd Bentsen
Lloyd Bentsen

John C. Danforth
John C. Danforth

Russell Long
Russell B. Long

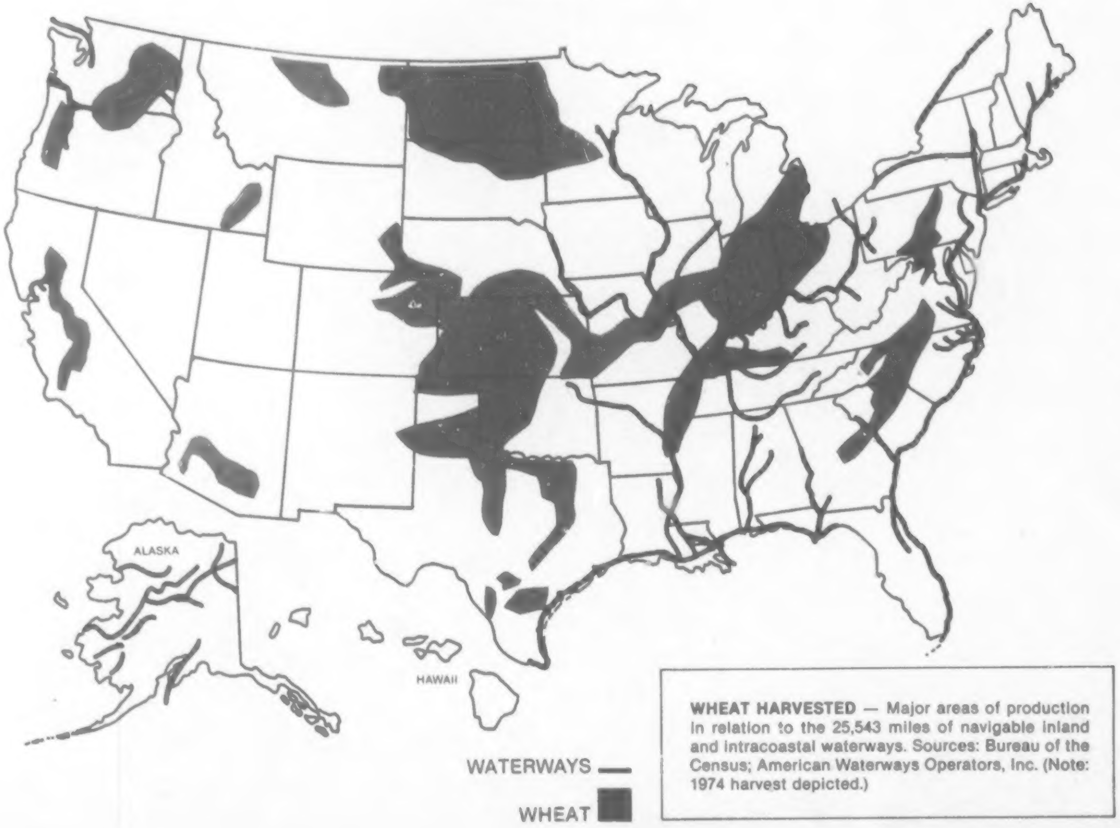
John Heinz
John Heinz

Alan J. Dixon
Alan J. Dixon

ATTACHMENT B

INLAND WATERWAYS

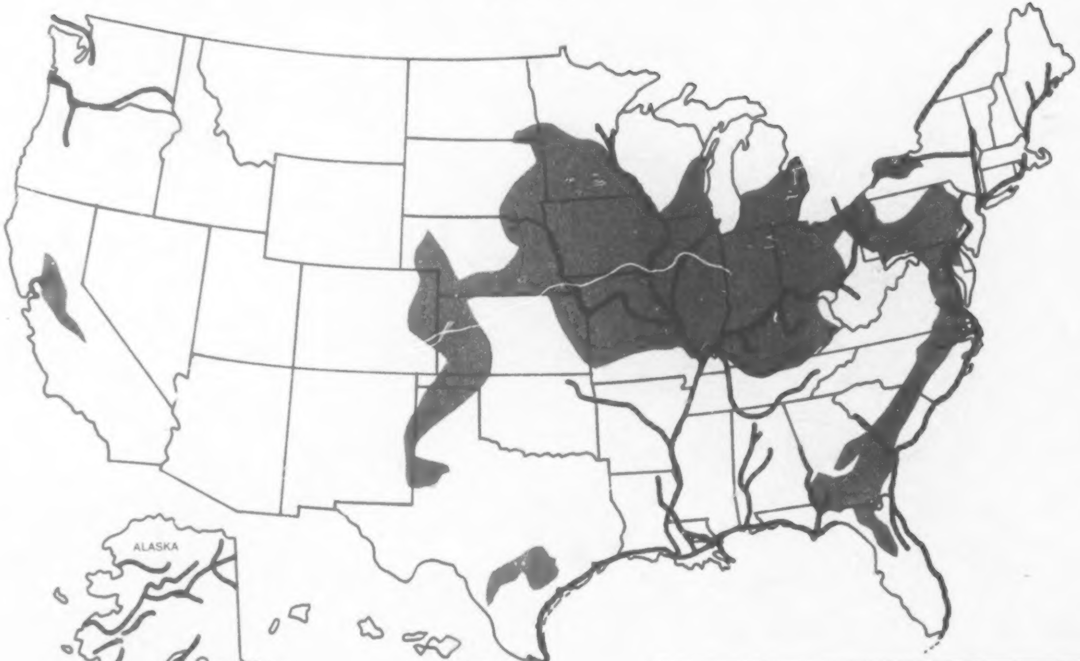
WHEAT


ALASKA
HAWAII
WATERWAYS —
WHEAT ■

WHEAT HARVESTED — Major areas of production in relation to the 25,543 miles of navigable inland and intracoastal waterways. Sources: Bureau of the Census; American Waterways Operators, Inc. (Note: 1974 harvest depicted.)

INLAND WATERWAYS

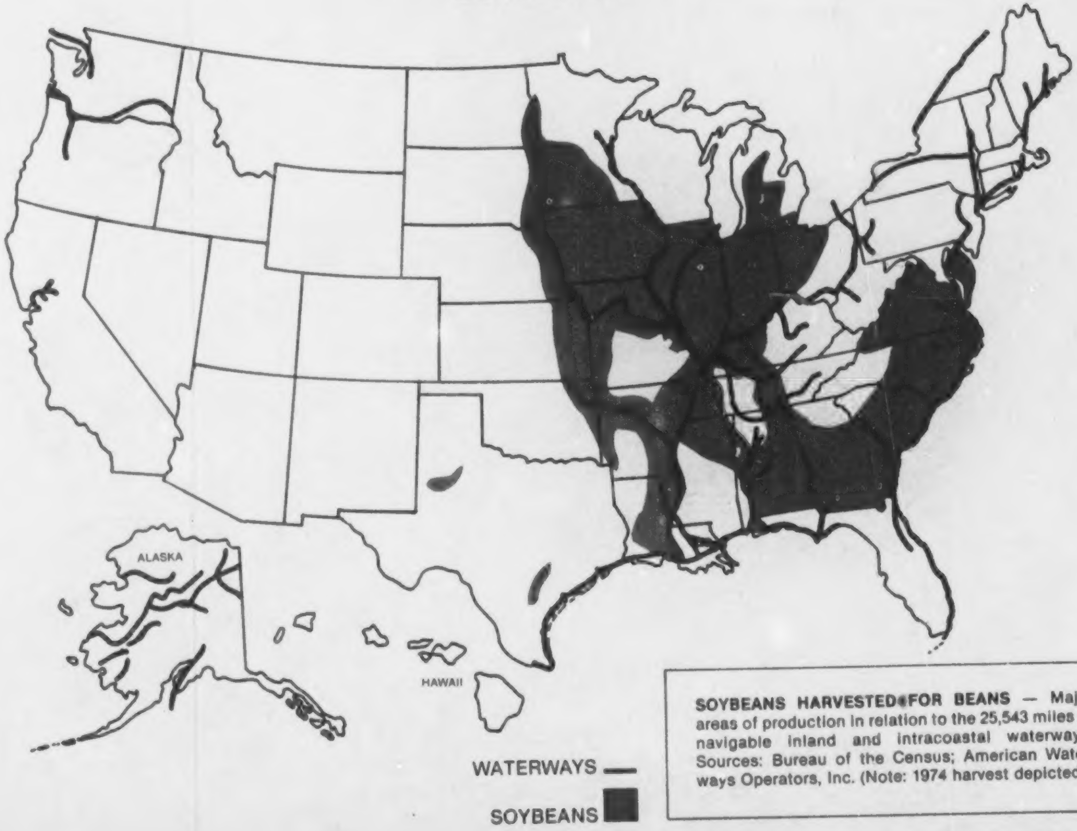
CORN


ALASKA
HAWAII
WATERWAYS —
CORN ▇

CORN HARVESTED FOR GRAIN — Major areas of production in relation to the 25,543 miles of navigable inland and intracoastal waterways. Sources: Bureau of the Census; American Waterways Operators, Inc. (Note: 1974 harvest depicted.)

INLAND WATERWAYS

SOYBEANS


ALASKA
HAWAII
WATERWAYS —
SOYBEANS ■

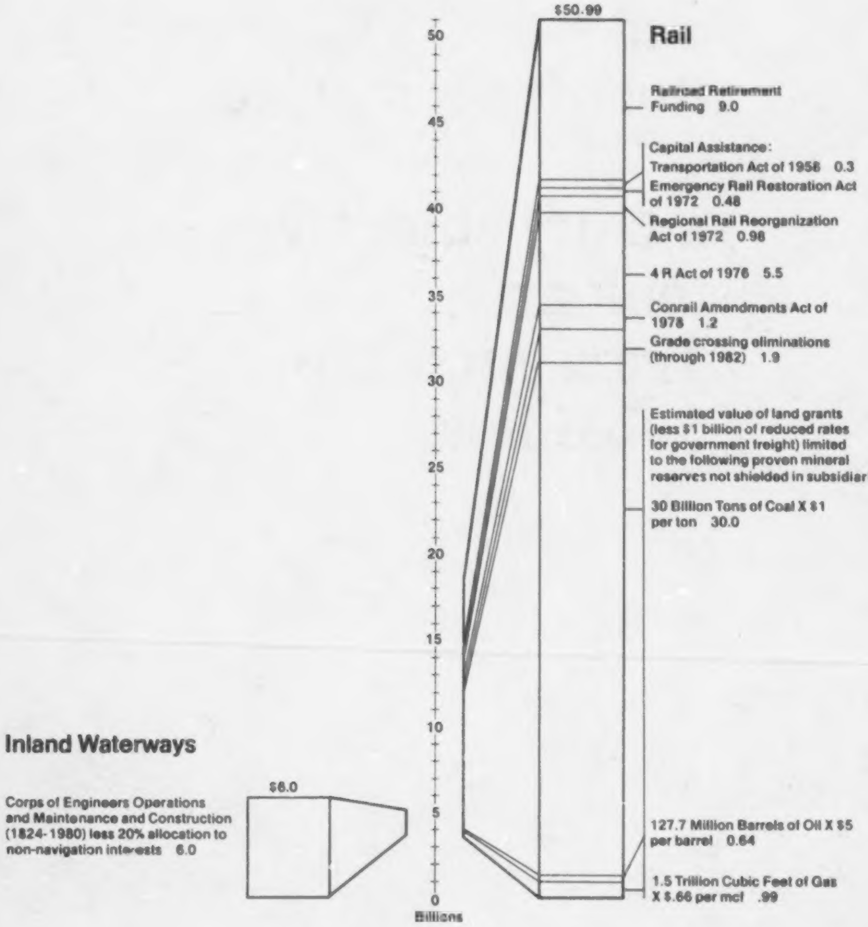
SOYBEANS HARVESTED FOR BEANS — Major areas of production in relation to the 25,543 miles of navigable inland and intracoastal waterways. Sources: Bureau of the Census; American Waterways Operators, Inc. (Note: 1974 harvest depicted.)

ATTACHMENT C

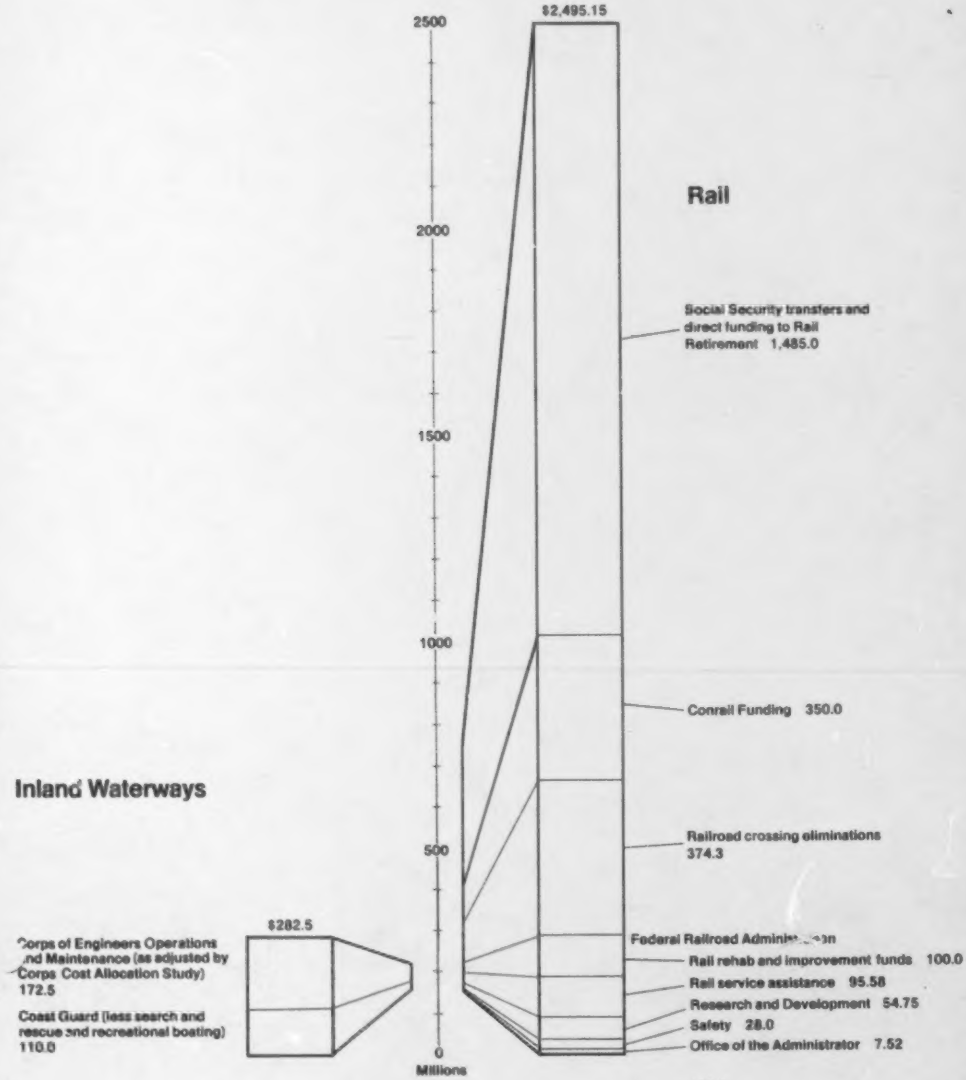
Myths, Facts and Genuine Surprises . . .

a truly objective look at Transportation Subsidies.

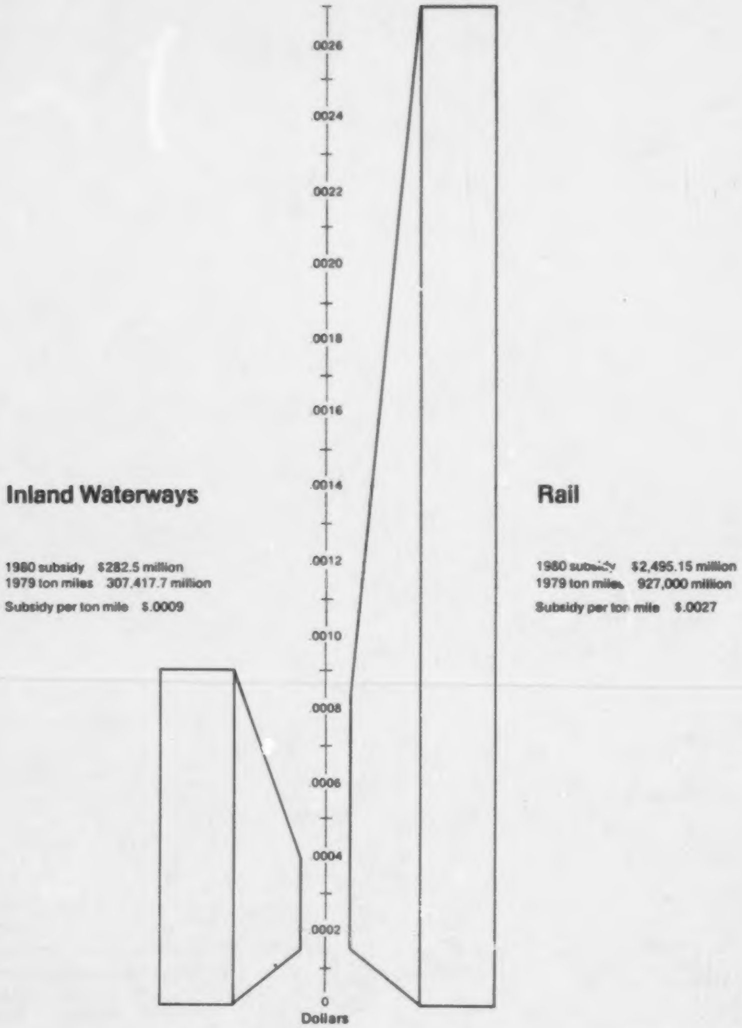
Historical Cost of Federal Subsidies to Rail and Inland Waterways



Current Annual Cost of Federal Subsidies to Rail and Inland Waterways—FY 1980



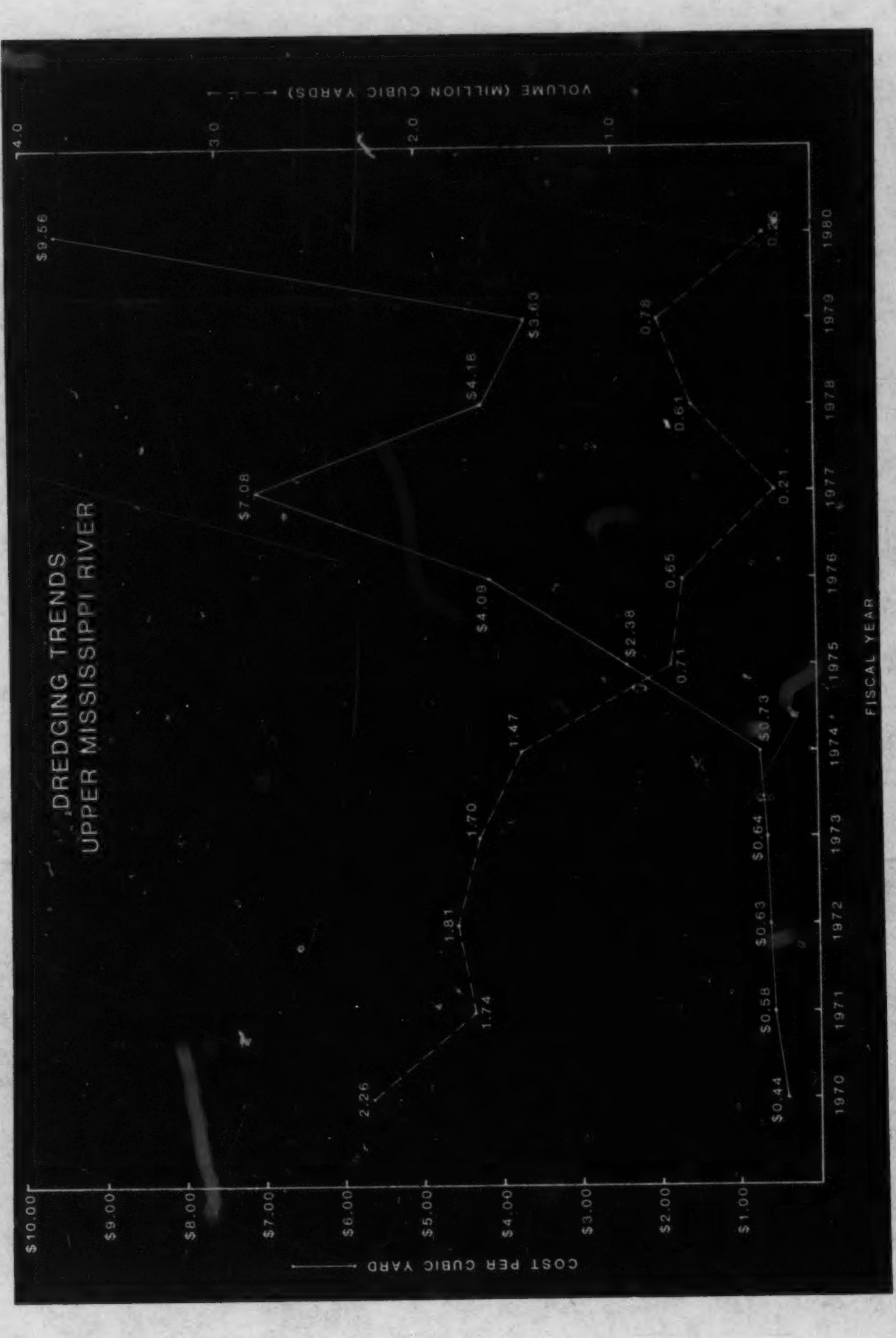
Current Annual Cost of Federal Subsidies Per Ton Mile to Rail and Inland Waterways—FY 1980



- As shown on these charts, railroads have been and remain the largest recipient of government transportation subsidies, whether compared on an annual, historical or ton-mile basis.
- Regardless of the rationale behind past or current railroad aid programs, they constitute a subsidy. They cannot be considered in a different context than federal funds spent on the maintenance and operation of public waterways.
- The waterways of the United States are a shared national resource. They benefit not only commercial navigation, but also recreation, conservation, the environment and other public considerations. However, the Corps of Engineers "navigation" budget does not identify the portion of federal outlays on the inland waterways that is allocable only to commercial navigation.
- The commercial users of the inland waterways system now pay to the federal government a fuel tax of 4 cents a gallon, slated to increase to 10 cents per gallon in 1985. The waterways industry, unlike the railroads, is helping to pay for the benefits it receives.

THEREFORE

- At a minimum, any further tax increase on waterway users should await the following:
    - —Completion and review of the comprehensive study of user charges mandated by P.L. 95-502, the legislation which implemented the first waterway user charge.
    - —Completion of various state and regional studies regarding the impact of waterway charges on shippers.
    - —Restructuring of the Corps of Engineers cost accounting process so it will accurately reflect true "navigation" cost. Cost recovery could then be considered to the extent it actually benefits commercial navigation.
- Any additional inland waterway taxes should be considered in the light of constitutional prohibitions against discriminatory taxation of certain regions or ports.
- Any new policy of transportation cost recovery should be instituted equitably among the subsidized modes.


DREDGING TRENDS
UPPER MISSISSIPPI RIVER
COST PER CUBIC YARD
VOLUME (MILLION CUBIC YARDS)
FISCAL YEAR
$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
4.0
3.0
2.0
1.0
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
$0.44
$0.58
$0.63
$0.64
$0.73
$2.38
$4.09
$7.08
$4.18
$3.63
$9.56
2.26
1.74
1.81
1.70
1.47
0.71
0.65
0.21
0.61
0.78
0.26

ATTACHMENT E

SUBJECT: 1981 - 1984 Navigation Season Public Notice of Channel Maintenance Dredging

4. Federal Laws and Regulations Applicable to Dredging and Placement of Dredged Material: Following is a list of statutes, regulations and executive orders which can have a bearing on how dredging operations are conducted:

a. River and Harbor Acts of 1930, 1932, and 1958 - These acts are the enabling legislation for the projects.

b. National Environmental Policy Act (NEPA-42 USC 4321) - Requires Federal agencies to evaluate the effect which their actions will have on the environment, and to give appropriate consideration to environmental values - in the decision making process. An environmental impact statement (EIS) has been prepared for the Upper Mississippi River Navigation Project. However, individual dredging activities must be analyzed in light of that impact statement and in some cases additional assessments are needed when the work is not covered by the existing EIS.

c. The Clean Water Act - Formerly the Federal Water Pollution Control Act, this law can impact on dredging in two ways. Section 404(b) requires an evaluation of the impact of depositing dredging material in navigable waters or adjacent wetland. In evaluating those impacts, the Corps applies the Environmental Protection Agency (EPA) guidelines regulating the discharge of dredged or fill material which are set out in 40 CFR 230. Section 404(t) of the Act requires that the Corps comply with State regulatory requirements when depositing dredged material. In general, a State permit is required when placing dredged material below the ordinary high water mark, and when there is an effluent discharge from a material placement site into a water of the United States.

d. Water Resource Development Act of 1976 - Authorizes placement of sand at State-provided sites with any increased cost paid by local interests. Authorizes creation of wetlands by using dredged material from a water resource development project. Directs Corps to utilize best management practices in order to extend life of placement sites and minimize need for new sites.

e. Fish and Wildlife Coordination Act (16 USC 742) - Requires consultation with the U.S. Fish and Wildlife Service and State agencies.

f. National Historic Preservation Act (16 USC 470) - Requires consideration of historical and archeological values in planning dredging operations.

g. Endangered Species Act (16 USC 1531) - Prohibits the Corps from taking any actions which would jeopardize the existence of endangered or threatened species, or would destroy or modify habitat which is determined by the Secretary of the Interior to be critical.

h. Corps of Engineers Regulation 33 CFR 209.145 - Requires that a public notice be issued and the opportunity be provided for public hearings concerning maintenance dredging operations.

i. Environmental Protection Agency Regulation 40 CFR 230 - Provides guidelines for evaluating the impact of discharging dredged material in navigable waters of adjacent wetlands. The EPA is authorized to prevent discharge if there will be an unacceptable adverse effect on the environment. Included in the evaluation is an analysis of the economic impact on navigation should the proposed disposal site not be used.

j. Executive Order 11988 - Requires consideration of the impact of dredging operations on floodplain values.

k. Executive Order 11990 - Requires consideration of the impact of dredging operations on wetland values.

l. Executive Order 11593 - Requires the protection and enhancement of the cultural environment. Any significant resources are surveyed and when appropriate nominated to the National Register of Historic Places.

ATTACHMENT F

US Army Corps of Engineers
Office of the Chief of Engineers

Navigation Cost Allocation Study

— A Feasibility Case Study —

- Pittsburgh District
- St. Paul District
- St. Louis District

Main Report

Prepared by
U.S. Army Corps of Engineers
Office, Chief of Engineers
Directorate of Civil Works
Office of Policy

October 5, 1980

SECTION VII

CONCLUSIONS AND RECOMMENDATIONS

Conclusions:

The following conclusions were derived from the experience of this study:

- It is possible for the Corps of Engineers to perform an allocation of cost between user categories for navigation projects and work functions. A generalized methodology can be developed on the basis of these case studies.
- There are at least eight user categories, or beneficiaries, of "navigation" projects. These include (a) Commercial Navigation, (b) Power, (c) Recreation, (d) Flood Control, (e) Water Quality, (f) Water Supply, (g) Fish and Wildlife, and (h) Environmental Quality.
- The Corps is capable of estimating those costs (expenditures) which are properly attributable to commercial navigation at as high a degree of accuracy as any cost allocation performed by the Corps for other purposes (i.e. water supply).
- The Corps of Engineers Management Information System (COEMIS), supplemented with Performance Monitoring System (PMS) operating statistics, is adequate to support a cost allocation effort with minimal additional record keeping. Some minor deficiencies of COEMIS were noted during the study.
- Corps districts incur substantial non-commercial navigation costs in the construction, operation and maintenance of navigation

projects. Although the purpose of this study was not to develop accurate numbers, it appears that the non-commercial navigation costs may average as much as 25-30% of total "navigation" expenditures.

- Existing procedures are adequate for conducting navigation cost allocations. In particular, the "Separable Cost Remaining Benefit" method appears suitable for allocating costs for New Construction and Major Rehabilitation. The "Use of Facilities Method" appears most suitable for allocating Operations and Maintenance Costs.
- There was little guidance or precedence outside of Corps of Engineers circles that was transferrable to this effort. Navigation cost allocation differs from highway and airport/airway cost allocation in that there is a wide diversity of waterway users, as compared to similar users of facilities designed for other modes.
- Each lock should be evaluated separately. Lock use (i.e. commercial vs recreational use) varies significantly, even on the same waterways. Total aggregate waterway analysis can lead to misrepresentation of resource allocation.
- Allocation procedures for new waterways present additional difficulties. Usage has not developed sufficiently in early project life to meaningfully quantify benefits.
- It is still not practical to incorporate externalities within the cost allocation process (for example, regional development and value of stable pool to M&I water supply). This is not, however, a problem unique to cost allocation.

- Sound analytical procedures exist for allocating the costs of what might be considered "intangibles," such as environmental quality.
- The use of the waterways tend to change with time. There is some evidence that Corps operating and management practices have not always remained congruent with the original authorized purposes. A number of Corps projects classified as "navigation" are no longer used for commercial navigation; others are only marginally used by commercial traffic.

Recommendations:

- Evaluation of all Corps "navigation" projects should be made to determine whether they are still viable operating entities, operated and maintained for commercial navigation. A closely related study is currently being conducted by the Operations Division at OCE (DAEN-CWO). Field offices have been requested to submit reconnaissance reports to support FY-81 O&M funding.
- If it is determined that a navigation and cost allocation study should be conducted Corps-wide, (a) using this study as a basis, a generalized methodology and study procedure should be developed, and (b) the study should be directed by OCE and conducted primarily "in-house" with minimum consultant assistance. This could be accomplished within one year and for about $250,000.00.
- Consideration should be given to breaking the "01" COEMIS account (Locks, Dams, Reservoirs) into three separate accounts or sub-accounts.
- Consideration should be given to assigning specific location codes to COEMIS line item expenditure accounts.

- Benefit evaluations of navigation projects should be updated annually on multipurpose projects, as currently reported on the LMVD form 23.
- The Corps of Engineers Institute for Water Resources (IWR) should be directed to conduct a study on the benefits, and influence, of externalities on navigation projects to determine if (and when) project costs should be allocated to this purpose.

ATTACHMENT G

Congreſs of the United States
House of Representatives
Washington, D.C. 20515

The Honorable John O. Marsh
Secretary of the Army
The Pentagon
Room 3E718
Washington, D.C. 20310

Dear Secretary Marsh:

The issue of user pay for subsidy or subsidy effect programs provided by the federal government is a fundamental part of the Administration's proposed economic recovery package. One of the more significant elements in this package is a call for the domestic water transportation industry to pay all operation, maintenance and capital construction expenditures incurred by the Army Corps of Engineers on waterways of 14 feet or less. The major flaw in this proposal is that it fails to recognize that waterways are shared by a large number of other users in addition to commercial barges and towboats.

As a result of this flaw, the water carrier industry could be required to subsidize all users and beneficiaries of these waterways. In so doing, the industry would be placed in the difficult position of appropriating money for projects authorized by the federal government -- if in fact, it was able to sustain operations under these conditions.

The only equitable approach to this problem is to insure that the Administration conducts a full and complete investigation of all uses and all beneficiaries associated with projects authorized for navigation exclusively as well as for those projects which feature navigation as one of its purposes before final actions are taken on this matter. This investigation should include, but not be limited to, the preceding five-year period. Accordingly, it is the purpose of this letter to request that the Army Corps of Engineers undertake such a study at the earliest practicable time.

Among the objectives of the study would be a comprehensive identification of all beneficiaries and a determination as to the cost effectiveness of the expenditures supporting these beneficiaries.

Users and beneficiaries should include, but not be limited to:

(a) Commercial water transportation
(b) Flood protection
(c) Municipal and industrial supplies
(d) Recreation
(e) Power generation
(f) Irrigation

(g) Bank stabilization
(h) Fish and wildlife enhancement
(i) Environmental enhancement
(j) Regional development
(k) Defense preparedness
(l) Facilitation of export expansion

The study should be an historical perspective, with specific expenditures delineated for a period of at least five years. The investigation should include an historical review of the authorization and appropriation processes, with special attention paid to the time required for each step in the authorization, appropriations and construction phases.

The study should be regionally specific, and result in a recommended delineation of the inland navigation system into a number of homogeneous segments based upon geography, patterns of common use, idiosyncrasies of commercial waterborne commerce and other physical considerations.

The study director should, upon completion of said study, recommend to Congress: (a) A level of cost allocable to each of the individual users proportionate to the benefits received from the operation, maintenance, and rehabilitation of these waterways; (b) A method of cost recovery which is cost effective, equitable, and causes minimum disruption to the water transportation industry; (c) A procedure and organizational framework for reporting and collecting the fees specified under "(b)" above; and (d) An estimated level of funding required to implement and operate the recommended collection system.

The study director should also recommend to Congress the most cost effective method by which authorization and appropriations for major rehabilitation and new construction can be accomplished.

The study should use existing data, and draw from previous studies and reports where appropriate.

It is our understanding that the Administration is presently conducting a study of the waterway user tax issue pursuant to Section 205 of P.L. 95-502. It would be our desire that issues raised in this letter be explored as part of that ongoing study. Hopefully, reviewing these additional considerations will not add significantly to the time needed for completion of the Administration's ongoing study, but the additional effort required will improve the information necessary for the Congress and the Administration to make a reasoned and equitable decision regarding this complex issue.

Sincerely,

MARSH, John
Page 3

Robin Beard, M.C.

Bill Boner
Bill Boner, M.C.

Marilyn Lloyd Bouquard, M.C.

John Duncan, M.C.

Harold Ford
Harold Ford, M.C.

Albert Gore Jr.
Albert Gore, M.C.

Ed Jones
Ed Jones, M.C.

James H. Quillen
James Quillen, M.C.

Senator Howard Baker

Jim Sasser
Senator James Sasser

ATTACHMENT H

MISSISSIPPI RIVER SYSTEM

The Mississippi River System includes the main channels and all tributaries of the Mississippi, Illinois, Missouri, and Ohio Rivers. The system connects the industrial northeast from Pittsburgh with the Gulf export ports. The system also makes possible the movement of grain commodities from as far north as Minnesota to New Orleans.

The Mississippi Basin, containing some 1.25 million square miles, is the second largest valley in the world, exceeded only by that of the Amazon. It draws its water supply from 28 states, a spread of 45 degress of longitude. The area of its drainage basin is as great as the combined areas of England, Wales, Scotland, Ireland, Italy, France, Spain, Portugal, Germany, Austria and Turkey.

Traffic on the Mississippi River System reached 355 million tons in 1978, representing an ever-increasing volume of freight. The major commodities moved on the system included grains for export, coal, building materials, petroleum and petroleum products, chemicals, and iron and steel products.

Grain moves south from the wheat, corn, and soybean producing regions in the north to New Orleans for export. In 1973, the barge and towing industry moved some 20 percent of U.S. grain exports. By 1980, this market share had doubled to 40 percent, at a time when total grain exports were rising rapidly.

Coal moves primarily on the Ohio River, and all projections indicate that as the nation begins to export substantial volumes of coal in the coming years, the waterways will be required to move increased volumes of coal traffic.

Northbound fuel oil and fertilizer movements serve the farmers as well as utilities in the northeast.

ATTACHMENT I

THE GULF INTRACOASTAL WATERWAY

The Gulf Intracoastal Waterway is a vital resource to the United States, representing one of our four coasts, and providing an outlet for inland commodities and manufactured products to reach foreign markets.

The waterway extends some 1,100 miles from Apalachee Bay, Florida to the Mexican Border, moving some 102 million tons of domestic waterborne commerce as well as additional foreign traffic.

The Gulf Intracoastal Waterway makes vital contributions not only to the national economy in terms of exports of vast amounts of grain and other commodities, but also impacts positively on the states and regions it borders. For example, a 1975 study by Texas A&M University revealed that the Gulf Intracoastal Waterway generates a total direct economic impact to Texas of $1.8 billion.

Traffic on the waterway consists primarily of petroleum and its products, chemicals, and coal.

The Port of New Orleans itself handles some 160 million tons of commerce annually, consisting of grain exports, petroleum imports, and the movement of other basic raw materials.

It has been estimated that some 118 barge lines operate in the New Orleans area, accounting for nearly half of the tonnage moved by the Port.

The Port of Mobile, Alabama, also serves as a vital import/export point on the Gulf, handling some 36 million tons of traffic each year, about 40 percent of which consists of foreign traffic.

In 1976, Mobile imports amounted to over $1 billion worth of commodities, while exports for the same year totaled $718 million.

Major commodities exported through Mobile are coal and grain products to Japan, coal to Italy, grain to the USSR and Holland, wire cables to Saudi Arabia, soybeans to West Germany, wheat and wood pulp to Venezuela, and soybeans to the Republic of

Korea. Recent traffic also includes grains to the Republic of China.

Imported petroleum products from Saudi Arabia, Indonesia, Nigeria, and the Bahamas arrive at Mobile, in addition to iron ore from Venezuela and iron products from Japan.

According to an economic analysis conducted by the port, 42,000 jobs and over $441 million in related wages and farm income are attributable each year to inland river transportation alone. On a statewide basis, some 125,000 jobs are river-related, totaling $1.3 billion in wages and related farm income.

ATTACHMENT J

ATLANTIC COASTAL OPERATIONS

The Atlantic Intracoastal Waterway extends from Norfolk, VA, to the St. Johns River in Florida, a distance of 739 miles. In addition, the Atlantic Coast is a major center for waterborne commerce at various ports, including New York, Boston, and Baltimore.

The intracoastal waterway accounts for the movement of some five million tons of commerce annually, principally petroleum products, iron ore, chemicals, and fertilizers.

New York Harbor handles some 186 million tons of traffic each year, of which 19 million tons is inland waterborne commerce. Inland commerce consists primarily of fuel oil, sand, gravel, and crushed rock, and waste and scrap.

Internal traffic at Baltimore Harbor accounts for over five million tons of total traffic which reaches 46 million tons. Internal movments consist primarily of coal and petroleum and its products.

Norfolk Harbor accounted for 34 million tons of waterborne commerce in 1978, of which seven million tons was inland in nature. Inland traffic consists of fuel oils and sand, gravel, and crushed rock.

On the Connecticut River, some two million tons of fuel oils move in coastal trade each year. New Haven Harbor accounts for the movement of 11 million tons of commerce, primarily coastal movements of fuel oils such as gasoline, distillate and residual fuel oils, and jet fuel.

Providence River and Harbor in Rhode Island handled 8.5 million tons in 1978, of which 1.4 million tons was exports. Fuel oils dominate the coastal and foreign trade.

Portsmouth Harbor in New Hampshire handled over three million tons in 1978, of which nearly two million tons was imported fuel oils and crude petroleum. Coastal movements were concentrated in petroleum and fuel oil traffic as well.

And as far north as Maine, on the Penobscot River, the waterways serve the nation's shippers. Over 1.7 million tons of commerce were handled in 1978, consisting primarily of coastal movements of gasoline, distillate fuel oils, and other petroleum products.

The Atlantic Coast performs a major role in the movement of petroleum. Substantial volumes of crude oil are moved from the Houston area across the Gulf of Mexico and then up the Atlantic Coast to various ports, including New York, Philadelphia, and Baltimore. New York and Philadelphia serve as import points for oil coming from Africa, the Middle East, and to a lesser extent, South America and the Virgin Islands.

ATTACHMENT K

WEST COAST AND COLUMBIA-SNAKE OPERATIONS

Between 1973 and 1980, Pacific Coast ports increased their share of U.S. exports from 11.3 percent to 19 percent of total exports. Grain shipments more than doubled during this period, growing from under 400 million bushels in 1973 to 918 million bushels by 1980.

The Columbia-Snake River System plays an important role in the export of this ever-increasing grain crop. The Snake River alone handles nearly four million tons of internal waterborne traffic each year, consisting primarily of wheat.

The Columbia River handled a total of 27 million tons of oceangoing traffic in 1978, consisting of wheat, logs, and ores, and an additional 17 million tons of internal traffic. The internal traffic was also concentrated in wheat and logs, with some movements of fuel oil.

The port of Portland handled a record 26.6 million tons of traffic in 1978. Included in that total were exports amounting to nearly 10 million tons, primarily wheat, and imports of two million tons, mostly iron and steel products and iron ores. Coastal traffic accounted for another five million tons, consisting primarily of fuel oils.

Inland traffic accounted for over 8 million tons of commerce. Principal commodities are wheat, sand, gravel and crushed rock and paper products.

Long Beach Harbor handled some 31 million tons of traffic in 1978, of which some 16 million tons consisted of foreign traffic — imports of crude petroleum, fuel oils, and petroleum coke, and exports of petroleum coke, corn, and basic chemicals.

San Francisco Bay handled over 58 million tons of commerce in 1978, of which some 18 million tons was foreign traffic. Major commodities, in both foreign and domestic commerce, are crude petroleum, and petroleum products such as gasoline, jet fuel, kerosene, and distillate and residual fuel oil.

Anchorage, Alaska, accounted for the movement of over two million tons of commerce in 1978, consisting of imported gasoline and jet fuel products and domestic movements of petroleum products.

COMMENTS BY THE AMERICAN WATERWAYS OPERATORS, INC., ON STATEMENTS MADE BEFORE THE WATER RESOURCES SUBCOMMITTEE OF THE SENATE ENVIRONMENT AND PUBLIC WORKS COMMITTEE -- PARTICULARLY THOSE OF MR. RICHARD F. WALSH, DIRECTOR, OFFICE OF ECONOMICS AND PUBLIC INVESTMENT, U.S. DEPARTMENT OF TRANSPORTATION, JUNE 16, 1981

In testimony before the Senate Water Resources Subcommittee, Richard F. Walsh, Director, Office of Economics and Public Investment, U.S. Department of Transportation, strongly advocated full cost recovery user charges for the waterways of the United States. In supporting this position, he made several statements which are misleading and, in some cases, misstatements of the facts.

For example, Mr. Walsh testified that federal cost recovery for navigation projects on the inland waterways has been "arbitrarily" reduced by 10 percent in the Administration's proposal, which he termed a "generous reduction." However, a Corps of Engineers study last fall concluded that some 25 to 30 percent of navigation costs are not navigation related. And this Corps of Engineers study did not take into account regional development, facilitation of export expansion, defense benefits and many other features inherent in a shared waterway system. For Mr. Walsh to say that 10 percent is generous, is seriously misleading to Congress, the shippers who utilize water transportation, and the nation's consumers.

Furthermore, we believe that the 10 percent write-off which the Administration has so "generously" included in its bill is far below what it should be. The barge and towing industry is currently in the process of reviewing the segment navigation cost data recently compiled by the Corps of Engineers in accordance with S. 810. This study is a massive, detailed effort and the review will require the expertise of many people, particularly those with "pilot house" experience and knowledge of the waterway system. Preliminarily, though, we have identified several segments along the Gulf Coast which are included in the Corps cost recovery navigation account but provide no service to commercial operations. The following segments and their associated "navigation" costs have been thus far identified:

Benbrook, Texas	$ 62,300
Grapevine, Texas	21,400
Bayou Coden, Alabama	301,900
Bon Secour River, Ala.	241,000
Cadet Bayou, Miss.	384,100
Dauphin Island Bay, Ala.	155,500
East Pass Channel, Fla.	675,900
Fowl River, Alabama	246,600
Perdido Pass, Alabama	128,200
Buford Dam, Georgia	58,000
TOTAL	$2,274,900

The projects in Benbrook and Grapevine, Texas, are in the Dallas-Fort Worth area -- an area far removed from commercial navigation. The Buford Dam project in Georgia is a flood control project. There is no commercial traffic at these or the other projects listed above.

These preliminary review findings indicate that the Corps of Engineers data are woefully incomplete and inaccurate. A full cost allocation study, with advice and coordination from those having first-hand experience with the system, is vitally needed in order to identify and isolate true navigation costs.

Another point we bring to your attention is the fact that the navigation account currently used by the Corps of Engineers includes many items which are not navigation related. A variety of other users/beneficiaries of the waterways system are contained in that account. Costs assigned to commercial navigation include: water supply; flood control; hydroelectric power generation; low flow augmentation; public use plan studies; silt reduction; small boat channel dredging; maintenance and safety harbors; visitor facilities at dams and other areas; locks usage by recreational craft; fish and wildlife habitat enhancement; dredging for environmental enhancement; salinity control; maintenance of bridges across navigable structures; bank protection for flood control; protection of roads and highways; and protection of railroad rights-of-way.

In addition, regional development and national defense benefits of the waterways system are included in this same account. We ask you to note that the National Transportation Policy Study Commission, charged by Congress to study transportation needs and policies through the turn of the century, suggested that any fees to recover federal waterways expenditures should take into account "that costs and benefits of waterways are based on multiple uses, such as recreation and flood control, as well as commercial transportation."

"No existing waterway segment should be shut down if users pay at least an amount sufficient to cover its operation, while considering matters such as regional economic development, export expansion, or other national objectives," the report says.

"The user-pays principle", the report continues, "should also apply to the rail mode."

It is important to note the important role that our waterways have played in national defense. In World War II, this transportation system allowed inland shipyards to build thousands of sea-going vessels, and reduced the transportation demands placed on other distribution modes. It also provided a vital transportation link to inland manufacturing centers bringing about a geographical diffusion of essential industries which would have otherwise been concentrated along vulnerable coastal cities.

Tank barges also played a significant role in the movement of millions of tons of petroleum products throughout the war period. From December 1941 through August 15, 1945, some 1.7 billion barrels of petroleum and petroleum products were loaded at inland waterway ports. The following table shows petroleum movements by geographic area:

Geographic Area	Total Loadings	Daily Avg.
Mississippi-Ohio System	368,645,615 bbl	272,465 bbl
GIWW	443,318,119	327,656
AIWW	660,454,667	488,141
Upper Mississippi & Illinois	45,514,952	33,640
Great Lakes-N.Y. State Barge Canal	213,097,132	157,500
TOTAL	1,731,030,485	1,279,402

Based on a 10,000-gallon rail tank car, the amount of petroleum moved on the waterways during World War II would have been the equivalent of nearly 7.3 million rail tank loads. The inland waterways were thus instrumental in alleviating the overburdening of the railroads with unusual wartime traffic demands.

The waterways were instrumental in moving large volumes of other essential commodities, including coal, iron and steel products, grains, chemicals, and scrap iron and steel. Many industries vital to the war effort could not have operated efficiently without the availability of barge transportation.

As stated earlier, the waterway system and the inland shipyards were responsible for a highly successful effort in the building and delivery of war vessels from those shipyards to the sea. The Army, Navy, Maritime Commission, and War Shipping Administration relied upon shipyard capacity in the interior of the nation for the production of essential war craft. The navigable waterways made possible the full utilization of the manpower and production facilities of the Great Lakes and the Mississippi and Ohio valleys.

The Corps of Engineers documented the construction of over 4,000 vessels built at inland yards for war purposes from January 1942 through December 1945. Of these 4,000 vessels, over 1,200 were built on the Mississippi River; another 1,000 were built on the Great Lakes; and 875 were constructed on the Ohio River. These vessels consisted of torpedo tenders, coastal transports, auxiliary repair ships, aircraft rescue vessels, destroyer escorts, Coast Guard cutters, landing and patrol craft, and submarines.

In addition to the construction of 4,031 vessels, Ohio River inland shipyards produced 43,744 tons of structural ship sections.

The waterways of the United States proved highly successful as a permanent, integral part of our national defense. To ignore this important feature as a non-commercial navigation benefit is a gross inequity to commercial water transportation. Expecting the water mode to subsidize a legitimate federal government responsibility is contrary to the fundamental principles which established our federal government, particularly Article IV, Section 4 of the Constitution.

In his testimony, Mr. Walsh stated that between 1977 and 1990, traffic on the waterways will increase by 40 percent under full cost recovery. He did not mention, until specifically asked, that despite this growth, the barge and towing industry will lose some 10 percent of its traffic to competing modes under cost recovery user charges.

This shift of traffic to other surface transportation modes does not conform to transportation policy, energy policy, or any policy which promotes and protects our balance of payments. Moreover, a policy favoring a tax level which causes these shifts from one mode of transportation to another, is in conflict with President Reagan's stated goal "that the taxing power of the government must be used to provide revenues for legitimate government uses. It must not be used to regulate the economy".

This country's goal of increasing exports of U.S. goods to offset the importation of oil could be seriously jeopardized if farmers and other producers cannot reach, or compete, in world markets because of a substantial shift of traffic from the waterways to alternative modes. These alternative modes cannot handle the additional volume of traffic which is now moving on the waterways. And they certainly cannot compete with the efficiency and productivity of barge transportation.

Similarly, this country's energy policy calls for increased self-reliance on, and continued conservation of, vital energy resources. Self-reliance on domestic coal and other energy supplies can only come if we can economically distribute our energy resources from where they are produced to where they are consumed or exported. A healthy water transportation industry is essential to this effort.

The fuel efficiency inherent in barge transportation supports our national policy of energy conservation. To shift traffic from highly fuel-efficient barge transportation to another mode which consumes significantly more fuel to perform even less than equal transportation services is contrary to this important national goal.

Mr. Walsh asserted that few of the improvements to the waterway system would have ever been made were it not for the needs of commercial navigation. This statement ignores the multiple-purpose aspect of water projects, as well as the multiple-purpose water needs of the nation. Municipal water supply, flood control and protection, and hydroelectric power are important uses of the nation's water resources. All of these would be needed even if we did not have a commercial water transportation network.

Mr. Walsh stated that the waterway system has been the sole exception to a long-standing policy of cost recovery, a policy which the Executive Branch and the Congress have confirmed again and again. This is an erroneous statement on two accounts. First, in 1978, Congress voted to impose a fuel tax on commercial water transportation, thus ending nearly 200 years of federal policy which did not include cost recovery. Second, the railroads have been and remain the largest recipient of government transportation subsidies, whether compared on an annual, historical, or ton-mile basis.

On a historical basis, the inland waterways have benefitted by some $6 billion on federal funds since 1824. By comparison, the railroads have reaped the benefits of some $50 billion in federal aid and subsidy.

On an annual basis, the inland waterways, in fiscal year 1980, benefitted by the expenditure of $282.5 million by the Corps of Engineers. By comparison, the railroads received nearly $2.5 billion that year.

Federal investment in rail and barge transportation must be examined in terms of the return which the nation receives for its investment. The waterways produced over 307 billion ton-miles in 1979, a subsidy per ton-mile of $.0009. By comparison, the railroads produced 927 billion ton-miles in 1979, for a subsidy per ton-mile of $.0027. Clearly, it is the barge and towing industry which provides more transportation service for the federal aid it receives.

An often cited study by the Congressional Budget Office asserts that the barge industry is subsidized by an amount equal to 40 percent of its revenues, compared to 1 to 2 percent for the rail industry. This, one is to assume, proves that the waterways are more heavily subsidized than the railroads.

Missing from this analysis is the key fact that barge transportation is inherently fuel-efficient and cost-effective. As a result, industry revenues are quite modest, some $2 billion per year, when compared with rail industry revenues of some $20 billion per year. The same federal dollar invested in the rail mode produces a lower percentage of revenues than if that dollar were invested in the barge mode. Rather than prove that railroads are less subsidized, this only demonstrates that rail revenues are higher than barge revenues.

The barge industry was able to charge shippers less due to a gain in productivity, barge industry revenues would be lower that year. Thus, a fixed dollar investment in the waterways would mean a rising percentage of subsidy to revenue for the barge mode. Does this mean the taxpayer and the consumer are receiving less benefit from this federal investment? Quite the opposite. Under the assumptions and analysis made by the Congressional Budget Office study, the barge industry will only become comparably subsidized to the rail mode when barge industry revenues rise to approximate rail revenues.

Followed to its ultimate conclusion, the CBO Study would have the barge industry revenues increasing some seven-fold, to $14 billion per year, in order for federal investment in the barge mode to approximate the two percent cited for the rail mode. The seven-fold increase demonstrates not only the irrational comparison of subsidy to revenues but also the phenomenal cost burden it would take to even attempt to draw meaning from this type of comparison.

It is the productivity of the federal dollar invested, not its relationship to industry revenues, which serves as the basis for a rational analysis. Again, the waterways in 1979 received a subsidy of $.0009 per ton-mile, compared to $.0027 per ton-mile for the railroad industry.

Under the CBO analysis, the water industry is penalized for its cost effectiveness.

In his testimony, Mr. Walsh ignored the pervasive phenomenon of water-compelled rail rates. Simply stated, railroads charge less when barge service is available. The Tennessee Valley Authority regularly compiles a listing of railroad rates for specific commodities and origin-destination cities. Rail rates, where water competition exists, are compared with similar movements over routes where no competition exists.

In many cases, the differences in rail rates are staggering. For example, vinyl acetate moving from Calvert, Kentucky, to Henry, Illinois, by rail moves under a rail rate of $45.80 per net ton without barge competition. The presence of barge service forces this rail rate to drop by approximately half to $22.40 per ton. The TVA cites literally hundreds of these rates each year, highlighting the positive effect of barge competition in serving as an anchor on rail rates.

Mr. Walsh, in addressing rail land-grant aid, asserts that these land-grants were legitimate public policy decisions to open up the west, spur the economic development of depressed regions, and maintain vital transportation services.

Today, he stated, we are no longer in a development or promotional posture with respect to any mode.

By following Mr. Walsh's suggestion that we put behind us the land grant program, we also put behind us the vast mineral rights, a latter day bonus to the basic transportation objective, now being enjoyed by the railroads.

With regard to Mr. Walsh's statement that we are no longer in a development or promotional posture for any mode, he ignores several basic realities. The Arkansas River, opened in 1971, is still in its developing years. The Columbia-Snake River system in the Northwest opened only six years ago, is still maturing. Even the Mississippi River is in the process of developing greater potential use to the nation. Obviously, since the water transportation system is still in the process of growing and developing, we find it hard to believe that other modes, particularly the coal slurry pipelines, are considered developed to their limit. This country's economy, and hence our transportation system, is not stagnant. Therefore, it must always be in a position of development and growth to meet the demands of a growing nation.

In addition, it's important to recall that the waterways played an essential role in opening up the vast interior of this country during its earliest years -- serving as important trade, communications and transportation links. This was long before the railroads were started, and accomplished with no "water grants"; it was done simply by using what mother nature provided.

Mr. Walsh stated that full cost recovery user charges would result in increased transportation costs to farmers of some three to ten cents per bushel for grain moving from the upper Midwest to New Orleans. Information compiled by those who are actually involved in pricing transportation services indicate that the impact will be far greater. From Minneapolis, Minnesota and Sioux City, Iowa, to New Orleans, the impacts on grain will be in the range of some 20 to 30 cents per bushel, not three to ten cents.

The barge industry has gone about its business of moving the nation's freight in a productive, workmanlike manner, absent the wide spread national attention and notoriety that have surrounded other industries. Under these circumstances, it is easy to overlook the fact that barge transportation is a major asset to the nation's transportation system. It is a fuel-efficient, cost-effective mode of transportation. And it should not be forgotten that it has played an essential role in our nation's defense effort, and stands ready to do so in the future.

Federal expenditures for waterways improvements have benefitted many interests. By any measure, it has been a sound investment that has strengthened our country.

TESTIMONY BEFORE
THE
WATER RESOURCES SUBCOMMITTEE
OF THE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SENATE OF THE UNITED STATES

JUNE 16, 1981

BY

JOHN W. LAMBERT

CHIEF EXECUTIVE OFFICER

TWIN CITY BARGE, INC.

ST. PAUL, MINNESOTA

Mr. Chairman, Senators, I have spent almost 30 years in the business of transporting cargo on the entire Mississippi River System. My firm currently operates some 400 barges, a shipyard, and a grain elevator. The latter facility will load out some 1200 barge loads of grain and agricultural products this year from farms in Wisconsin, Minnesota, North and South Dakota.

The 95th Congress passed legislation (PL 95-502) implementing the first waterway user tax. This tax was in the form of a 10¢ per gallon diesel fuel levy to be staged into effect between 1980 and 1985.

This compromise bill, which authorized the construction of a new Lock & Dam 26, also mandated two studies to determine the impact of user fees on the economy and to assess the intermodal implications of a waterway tax. These studies will be completed by the responsible agencies and delivered to congress later this year.

Current Administration proposals to expand the scope of waterway user charges are embodied in S.810 and H.R. 2962. These proposals are seriously flawed in the following respect:

1. Proposed cost recovery of operations and maintenance expenditures is based on historic Corps of Engineers accounting methods which have traditionally lumped together multiple benefits

derived from waterway projects under the single accounting category of "navigation".

2. Based on a recent preliminary study, the Corps of Engineers has strong evidence that 25-30% of so-called "navigation" costs have absolutely nothing to do with waterway transportation. (See AWO Attachment F).

3. It is further apparent that environmental legislation of the 1970's has permitted state and other federal agencies to impose extraordinary dredging requirements on the Corps. (See AWO Attachment E). These demands are frequently non-cost effective. Voluntary or stipulated agreements are made with State and Federal units having no accountability for Corps expenditures. Such activities have, in some cases, raised the cost of dredging by 20 times over ten years. (See AWO Exhibit D). States, cities, counties, school districts, and even private land owners, have been the acknowledged beneficiaries of this extended and redundant handling of dredged material. The Corps has even employed their equipment in off-channel dredging where the express purpose of material distribution was the enhancement of fish and wildlife sanctuaries. At the same time that costs are skyrocketing, the effectiveness of channel maintenance is declining. The more money the

Corps spends, the worse the channel gets because of their multiple and often conflicting missions.

The Sierra Club and the Wisconsin Department of Natural Resources, et al, claim a stake in the river and have imposed their will on the Corps of Engineers with a "cost be damned" attitude. There is no risk in their doing this because they have never been held liable for the consequences of their actions. It would, therefore, be grossly unjust to accept the Administration's figures at face value and assign cost recovery to the shippers of the Midwest when they are granted no control over cost decisions. Such an action would raise constitutional questions concerning discriminatory taxation of a port, region, or a segment of society.

4. With a proper accounting of the Corps "navigation" budget and an appropriate distribution of cost to other benefited parties, it might be discovered that the existing waterway fuel tax already approximates the percentage of O & M cost recovery sought by the Administration and acceptable to Congress.

If the cost recovery proposal embodied in Amendment 32 to S.810 was reduced to a diesel fuel tax, it would require a tax of approximately 65¢ per gallon. Such a tax, related to the transportation of grain by barge from St. Paul, Minnesota or Sioux City, Iowa, to New Orleans would translate into a freight rate pass-through of $6.50 per ton from St. Paul and $9.75 from Sioux City. That further translates into 20¢ to 30¢ per bushel at the farm from those respective grain gathering areas.

Regardless of the taxing scheme employed, the estimated net collections would not change based on Amendment 32, and the cost per bushel estimated above would increase on the basis of segment fees.

Any additional inland waterway taxes should be considered in the light of constitutional prohibitions against discriminatory taxation.

Any new policy of transportation cost recovery should be instituted equitably among the subsidized competing modes.

Any new policy of cost recovery for projects constructed and operated by the Corps of Engineers should not be arbitrarily limited to shallow draft navigation projects, but should include all types of water resource projects.

We all recognize that waterway shippers must pay some fair and reasonable share of the cost of maintaining the system. However, the figures currently available from the U.S. Army Corps of Engineers do not properly reflect the true cost of operation and maintenance, but rather they will reflect costs grossly inflated by recreation, conservation, and environmental special interests. If fiscal responsibility is the order of the day and the public mandate, let all interests be subject to the same economic test. "If you don't want to pay the bill, don't order the goods."

COMMENT BY WATER TRANSPORT ASSOCIATION ON STATEMENT OF RICHARD F. WALSH, DIRECTOR, OFFICE OF ECONOMICS AND PUBLIC INVESTMENT, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE WATER RESOURCES SUBCOMMITTEE OF THE SENATE ENVIRONMENT AND PUBLIC WORKS COMMITTEE, JUNE 16, 1981

The purpose of this statement is to assist the Committee in determining the facts on the question of rail subsidies. From the facts, the Committee will then be able to develop an even-handed policy of cost recovery.

Railroads are the principal competitors of barge lines. It is conceded by the Administration that railroads will be the chief beneficiaries of increases in barge costs resulting from higher user charges either as a result of new latitude to raise water-competitive rail rates or the ability to divert traffic if rail rates are not raised.

Before this Committee can reach any conclusion on increasing waterway user charges, it must make sure that an even-handed policy of cost recovery for railroad subsidies is adopted at the same time as an increase in user charges for waterways is adopted.

Conversely, no increase in barge charges can be justified unless they are linked to cost recovery for rail subsidies.

Anything less than this linkage is an unacceptable use of the taxing power artificially to prefer one mode of transportation to another.

The heart of Mr. Walsh's statement is that, "As far as the freight carrying modes are concerned, the Administration has only one policy -- 100 per cent cost recovery."

And yet this statement seems to be contradicted by the Administration's treatment of Federal outlays for railroads. Outlays for railroads far exceed outlays for freight transportation on the shallow draft waterways, but no cost recovery mechanism for these outlays is even proposed.

Subsidies for railroads are different in kind from those for waterway freight transportation, but they are no different in competitive effect. In the current Administration budget, are a variety of rail subsidy programs costing hundreds of millions of dollars.

The Administration testifies that it proposes to eliminate rail subsidies, but this is a promise for sometime in the future, perhaps quite far in the future for some programs.

Until rail subsidies are eliminated, 100 per cent cost recovery, if it is to mean anything between two fierce competitors, should apply to railroads for as long as the subsidies are paid, if the Administration is to sustain its claim to having "only one policy for all freight carrying modes."

1. Railroad Retirement Subsidies. The current Administration Budget officially identifies a $350 million a year item for the railroad pension fund as a subsidy, attachment #1. Rail management and labor are trying to work out an agreement as to the financing of mounting retirement deficits, but there is no indication whatever of any proposal to reduce or eliminate the $350 million annual subsidy

amount. The budget description of railroad retirement reports that the railroads want this subsidy to be doubled. Attached is a special economic study of the development of the government's role in railroad retirement prepared for WTA by Jesse J. Friedman and Associates, an economic consulting firm. Attachment #2.

The railroads like to argue that the pension deficit is all the fault of Congress and therefore the taxpayer should pick up the deficit. This ignores the record. An independent Commission on Railroad Retirement concluded after careful study that the government had no responsibility for the deficit. In 1974, the President agreed, vetoing a bill to provide subsidy for the fund. In overriding the veto, Congress appeared to be motivated mainly by its conviction that the railroads, for financial or competitive reasons, could not stand the added cost at that time. Even so, no distinction was made between prosperous and marginal railroads.

Railroads are far more prosperous today than they were in 1974 by any measure. GAO, on March 9, 1981, produced a new report on railroad retirement urging the Congress to review the extent to which the taxpayer should fund the retirement deficits, particularly in the light of enormous increases in the deficits predicted for the future.

Administration sponsorship of full cost recovery should apply to this officially identified subsidy if there is to be any even-handed treatment of the whole subject of cost recovery.

2. Financial Assistance to Railroads. Loans that are repaid, of course, are not subsidies, but loans that are not repaid even if they have the worthy objective of increasing profits of marginal

railroads, are subsidies and should be acknowledged as such. A special study of capital assistance to railroads prepared for WTA in 1979 by Jesse J. Friedman Associates, concluded that, as of that time, $8.5 billion in various forms of capital assistance applied, over 20 years between 1958 and 1978, no recovery is in sight for $5 billion. The amounts have since increased substantially.

By far the largest of the programs involves Conrail.

A Federal court has approved a settlement of $2.1 billion for the railroad properties making up Conrail.

The costs of current proposals of the Administration on Conrail are still somewhat unclear, but a commitment has been made to provide the necessary funds to keep the railroad running for at least another year and a half. It is expected, in any event, that government will assume the costs of any labor settlement. The costs of this commitment are unclear.

More than 70 per cent of Conrail's traffic is interchanged with other railroads. Conrail serves an area of the country accounting for 40 per cent of all manufacturing activity -- the most concentrated single transportation market in the country. If it were not for the willingness of the government to subsidize Conrail and buy out past labor agreements, the prosperous southern and western railroads would make their own arrangements to reach these markets. Hence the subsidy is not really to Conrail, but to the system as a whole, particularly to the prosperous connecting railroads which are the chief beneficiaries.

All these subsidies have an inevitable competitive effect in the regions served by Conrail. While it is recognized that the Administration's policy is the "quickest possible shift" to a no-subsidy status for rail freight, "quickest possible" applied to Conrail may mean years. The correct policy would be no increase in waterway charges until the shift is accomplished or recoupment charges applied to the rail system as a whole on the same basis.

3. Other Federal Aid Programs to Railroads

a. Preference Shares. Extensive capital-cost savings accrue from government purchases of redeemable preferred stock on terms extremely favorable to the railroads. These terms provide for no dividends to the government for a 10-year period, followed by an effective dividend rate of about 4 per cent over the ensuing 20 years, working out to an effective rate of 2 per cent over the 30-year period as a whole. For most of the railroads benefitting from this program, preferred stock is probably unavailable as a source of funds at any price. Even under the optimistic assumption that the stock will be redeemed at the end of the 30-year period, the total savings to the railroads, as opposed to paying market costs of money, will total more than $2 billion over the period. Needless to say, the railroads taking advantage of this subsidy exchange most of their traffic with the system as a whole which is the beneficiary.

b. Grade Crossings. The railroads benefit from Federal programs for improvement or elimination of railroad-highway grade crossings. These programs benefit the public by reducing accidents and facilitating highway traffic flow, and benefit the railroads by reducing their exposure to public liability and removing a source of interference with rail operating efficiency. In the past three years, obligations of Federal funds for grade-crossing improvement projects have averaged about $375 million annually.

c. Tax Benefits. Special tax benefits, including special provisions for expensing track and equipment repairs, and railroad safety programs are still other forms of financial aid to the railroads from the Federal Treasury.

d. Land Grants. The Administration makes only a passing reference to rail land grants. The current income from land grants helps sustain major western systems and is therefore highly relevant to any discussions of relative modal subsidies.

Between 1850 and 1871, the railroads received an "empire" of 177 million acres of Federal and State lands representing 9.3 per cent of the total land area of the country. Western railroads still retain several million acres of land grant lands plus valuable mineral rights on millions of acres previously sold.

In a special report on railroad conglomerates in 1977, the Interstate Commerce Commission raised a question over the transfer of extremely valuable land grant assets from major western railroads to holding companies at far less than their true value and sometimes with no compensation at all. Land grants were clearly given railroads for railroad purposes. The transfer of these assets at less than actual economic value to holding companies having no responsibility for railroad operations violates the very principle, condition and purpose under which the lands were granted.

The ICC noted that, as a result of such transfers, the intention of Congress in making these grants would be subverted and "today's citizens would lose the benefit of the contract made by their forbears with the land grant railroads."

Involved in these assets are 50 billion tons of coal reserves in one railroad alone, and 15 billion tons in another, 25 billion tons of trona from which soda ash, a major industrial chemical, is made from another company, millions of acres of rich agricultural and timber lands, trillions of cubic feet of gas, millions of barrels of oil as well as extremely valuable uranium.

The railroads claim that they paid the government back for the land grants in the form of rate concessions for government traffic does not stand up under the full analysis of still another Jesse J. Friedman Associates economic study. Attachment #4.

To give some color to the claim that the government has been reimbursed, railroads value the lands they got from the government between 1850 and 1870 at 1870 prices of about $1 an acre. They got the land by 1870, but most of the service was performed for the government during World War II. In any valid comparison, the long interval between 1870 and the time the service was performed must be given the proper weight.

A conservative way to do that is with an interest rate applied during the intervening years to the value of the lands received. Taking the railroad's own figures for the values and applying only a 5 per cent interest on the land valued at $1 an acre in 1870, the 1946 value of the land was over $7 billion, several times what the railroads claim their rate concessions to be worth similarly valued.

Is is worth nothing that most of the rate concessions were given to the government by non-land grant railroads. Of course most of the traffic during World War II was from the population centers to the Atlantic and Gulf ports and from the industrial midwest and eastern heartland to the Atlantic and Gulf ports on the non-land grant railroads. The eastern and midwest railroads made voluntary and "for profit" decisions to match the rate concessions of the land grant railroads but concessions from non-land grant railroads are used to make up the total relied on to substantiate the claim of a pay back.

Furthermore, rate concessions on government traffic were matched by rate increases on commercial traffic. So the rate concessions were made up by the commercial shippers, after all.

The Committee should be aware that WTA has entered the UP-MP-WP merger case to urge, among other conditions, that in approving the merger, the ICC require as a condition that the land grant assets of the Union Pacific be revested in the railroad and the earnings be used in determining adequacy of railroad income and in that way help moderate rail rates in the west.

This is the usual way in which government subsidies are passed through to the consumer.

For 50 years, the Federal government has been building hydro dams in the Pacific Northwest and electricity rates there are lower than they would otherwise be because of these heavy Federal expenditures.

Those who ride to work on mass transit pay fares which are lower than they would otherwise be because of subsidies.

Those who enjoy rural electric co-ops of course pay rates that are less than they would otherwise be because of government subsidies.

One could name dozens of other examples where a public subsidy produces a cost that is lower than it otherwise would be without the subsidy.

A totally unjustified exception is the public lands given to the railroads. Railroad rates are not lower than they would otherwise be because of the land grants.

The Committee should also be aware of the current action of the Burlington Northern in forming a conglomerate so as to divert land grant assets from the railroad. In response to a question from Senator Max Baucus of Montana, the ICC recently identified the crucial importance to the successful operation of the BN of its resource holdings. Following is a quote from a May 13th letter from Bruce N. Hatton, Director Government Affairs of the ICC, to Senator Baucus:

"4. Has the Commission prepared any analyses depicting the extent to which Burlington Northern's non-rail development activities have supported the capital and cash needs of the railroad portion of the corporation in the past? If so, please supply copies. If not, I would appreciate the Commission staff preparing a brief analysis of the issue.

"The Commission has not conducted a specific study in this area, although, again, the Conglomerate report excerpted in Attachment III highlights the contributions of BN's natural resources assets.

"Pursuant to your request our staff has reviewed the impact of non-rail activities on Burlington Northern's financial posture. Non-rail income, primarily from natural resources, is extremely important to BN because it has enabled BN to maintain an A credit rating on its bonds by Moody's Investor Service. Any lower rating would have made it extremely difficult for the company to have done any non-equipment financing. For example, during the five years 1976 through 1980 the combined earnings available to cover fixed charges totaled $1,059 million. Fixed charges over the same five year period totaled $365 million, for a fixed charge coverage ratio of 2.9. Coverage of this magnitude is satisfactory to maintain an A rating. However, if non-railroad income is deducted from earnings available for fixed charges the $1,059 million figure would be reduced by $774 million to $2869 million, or less than the total fixed charges of $365 million. Rail operations performed better in 1980, generating a fixed charge coverage ratio of 1.30, but that ratio would not have supported an A rating. Additionally, the improved rail earnings might not have been possible without the large investments in rail facilities financed in part by funds from natural resources and from outside financing permitted by the A rating partly attributable to natural resource income."

The Western Coal Traffic League, protesting to the ICC the possible diversion of land grant assets from the BN, said that it "is apprehensive over the proposed restructuring of BN because of its potentially adverse impact upon the railroad's continued capacity to provide adequate and efficient coal transportation services to League members and to other coal receivers."

The ICC, in its report in 1977, "Railroad Conglomerates and Other Corporate Structures" said: "We are particularly converned that lands which were granted by the Federal Government to railroads to enable them to fund the construction and operations of their rail lines -- or the proceeds from the transfer of those lands or of interests in those lands -- have been and will be transferred from the railroads to their parent holding conpanies at less than fair value. Were the railroads receiving these properties, or their railroads successors in interest, to be deprived of the fruits of these land grants at a time, whether now or in the future, when they are needed to support rail services essential to the public interest, the intention of the Congress in making these grants would be subverted, and today's citizens would lose the benefit of the contract made by their forebears with the land-grant railroads."

While there is much to be said for the principle of not recovering sunk investment, past defaulted loans, and even the $6 billion spent on Conrail in the past, the land grants do not fall in that category. Government-provided resources for the major western railroads are much too important a proportion of total earnings. Government-provided resource earnings should be applied to lower freight rates.

We note that the DOT appears to have changed its previous and often-expressed view in previous Administrations that an "imbalance" in government aids to transportation was a prime cause of railroad difficulties. We are now urged to forget past subsidies to the various modes. The Committee is entitled to know whether this means that the DOT has abandoned its claim that there has been "inequity" in Federal subsidies as between rail and water. Analysis independent of railroads and DOT shows the balance to be the other way. If there is still any dispute, the Committee should insist on a new comprehensive accounting of all direct and indirect financial aids to the railroads, taking into account the most recent information on pensions, land grants, capital aids and other financial and competitively significant subsidy programs.

John A. Creedy

John A. Creedy
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Railroad Retirement

Agency: Railroad Retirement Board	Functional Code: 601	Budget Reform Criterion: 1,2,6

Funding

($ in millions)	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Outlays	5,295	5,827	6,285	6,664	7,007	7,351
REESTIMATES & ADJUSTMENT:						
Outlays	+41	-61	-186	-301	-432	-575
PROGRAM CHANGES[1/]:						
Outlays	-10	-40	-40	-40	-40	-40
REAGAN BUDGET:						
Outlays	5,326	5,726	6,059	6,323	6,535	6,736

[1/] The Carter Budget already included savings for another proposal. the Rail Pension Assurance Amendments which has ben adopted in the Reagan revisions. Pension Assurance increased trust fund receipts (BA) and reduced outlays, as follows:

	1981	1982	1983	1984	1985	1986
Budget Authority	--	+340	+372	+396	+424	439
Outlays	--	-40	-80	-120	-159	-195
Total, Deficit Reduction	--	(380)	(452)	(516)	(583)	(634)

Program Description

The federally administered rail industry plan pays pensions to 1 million retired or disabled rail workers, their dependents and survivors. The rail sector has not adequately funded their existing industry pension plan which is insolvent and will be out of funds by April 1982. The rail industry pension plan is actuarially underfunded by at least 4 percent of industry payroll in the long term.

Based on the rail sector's commitment to report their joint recommendation for sound financing of existing as well as higher pensions by March 1, 1981, the Congress enacted in December 1980 an *ad hoc* increase to take effect three months after the report (June 1981). The parties have missed their deadline, and a negotiated agreement for sound industry financing is unlikely to emerge in the near future.

Proposed Changes

To avoid exacerbating the rail plan's insolvency, repeal the increase and enact the Rail Pension Assurance Amendments until the rail sector soundly finances their pensions.

Rationale

Since 1976 RRB's Chief Actuary has projected serious underfunding of the rail industry pension. Rail labor and management have yet to agree on financing of their industry pension, a responsibility they have to the 1 million beneficiaries and 500,000 rail workers. The Nation's taxpayers now annually subsidize the rail industry pension by $700 per rail worker.

Benefits should not be increased when the rail industry pension will be bankrupt in a year. The rail sector should soundly fund existing pensions *before* increasing payments. The Rail Pension Assurance Amendments would increase revenues by one-half the actuarial deficit and prospectively reduce payments by the other half.

Key Facts About the Program

- Rail earnings will *average* over $29,800 in 1982, placing rail employees among the highest paid workers in America.
- Rail pensions are among the richest multi-employer pensions. Railroaders' pensions *exceed* Federal Civil Service or Military Retirement payments for comparable earnings, according to GAO (HRD 79-41, June 8, 1979).
- Federal taxpayers *directly* subsidize the rail industry pension plan by $350 million annually. This current taxpayer subsidy equals $700 per rail employee. The rail industry seeks to double this windfall subsidy.
- Social Security, in a unique arrangement, annually contributes $1.9 billion to the rail industry pension plan. The rail industry seeks to transfer an added $2 billion out from social security into their pension plan.

Before the
Committee on Environment and Public Works
Subcommittee on Water Resources
United States Senate

Statement of
William H. Dempsey
President, Association of American Railroads
Washington, D. C.
June 16, 1981

Regarding
User Charges on the Inland Waterways

My name is William H. Dempsey and I am President of the Association of American Railroads. Our members operate 94 per cent of the total railroad mileage in the United States, employ 92 per cent of the nation's railroad workers, and handle 98 per cent of the nation's railroad freight traffic.

There continues to be confusion as to why America's freight railroads are advocating full cost recovery user charges on the nation's inland waterways. Let me state right away that America's freight railroads do not oppose barge competition. We are not obstructionists. Our sole objective has been and continues to be the establishment of competitive equity among all competing forms of domestic surface freight transportation. As a matter of information, our industry participates in numerous joint hauls with barge lines, where, for example, railroads originate unit trainloads of coal and later transfer the coal to barge lines. Such arrangements often involve significant railroad capital investments in transloading facilities. We frequently operate in partnership with the barge industry. We are not anti-barge.

The concept of competitive equity requires that all competing modes of transportation -- whether they be railroads, barges or trucks -- pay in full the costs of publicly-provided facilities. It is solely on behalf of that concept that we appear before you today. We are not asking for a handout or for special favors. The freight railroad industry is merely asking that Congress allow free enterprise to function.

We believe that S. 810 properly addresses the inequity which has for so long persisted between barges and railroads. It is an inequity which has resulted in railroads and barges competing not on the basis of market forces and inherent advantages of each individual mode, but competing instead on the basis of subsidy. And while the railroads are losing -- as would any private sector firm competing against a substantially subsidized enterprise -- the real losers are the American taxpayers. For it is the taxpayers who are forced to provide the barge subsidy to begin with, and it is the taxpayers who will be forced to support a nationalized railroad system if the inequity continues.

It has been conventional wisdom that, if a publicly-provided navigation project results in lower transportation rates to shippers, the project is socially beneficial. What the conventional wisdom ignores is that in most cases those lower transportation rates to shippers are made possible not by lower costs, but because the taxpayer is absorbing the cost of the facility and the barge line does not have to factor the facility costs into its rates.

Let us assume that coal is moving by railroad at $10 per ton from here to there. By building a new navigation facility, and not requiring the beneficial users -- the barge lines -- to pay for the costs of that facility, the barge lines are able to offer the shipper a rate of $8 per ton. But if the barge line was faced with the full costs of the facility, the rate would be $12 per ton. This type of subsidy does not reduce costs -- it increases them.

Even where railroad lines do not now have sufficient capacity for future traffic growth, it may be possible to expand railroad capacity at less total cost than expanding barge capacity. But unless the individual modes are required to face the full costs of capacity expansion, and factor those costs into their rates, the real transportation costs are going to be distorted and society will face a higher total transportation bill than if the market was allowed to function. The point is that this preoccupation with rates, rather than costs, ignores the fundamental concept of resource allocation. Government, rather than the market place, is making resource allocation decisions, resources are not being channelled to their most productive uses, and market signals are being distorted.

If beneficiairies of publicly-provided navigation facilities do not pay the full costs of those facilities, there is an obvious tendency for them to demand more than is needed on a speculative basis. There is no incentive to perform benefit-cost analysis based upon prudent business judgment. Too often the result is excessive public funding for traffic projections which never materialize. A case in point is the St. Lawrence Seaway. And recent studies done by the General Accounting Office and various impartial academicians suggest that a similar situation will occur on the Tennessee-Tombigbee Waterway.

Current waterways policy in this nation allows direct beneficiaries to escape paying the costs of projects provided for their benefit and, instead, shifts those costs to the general taxpayers -- most of whom derive absolutely no benefit from navigation projects. A General Accounting Office Study a few years ago concluded that barges enjoy a subsidy of 42 cents for each dollar of earned revenue. That represents a massive transfer from general taxpayers to barge lines and seriously disrupts the interplay of market forces. If railroads were to receive a similar subsidy, 42 cents for each dollar of earned revenue, that subsidy would have to exceed $10 billion annually!

According to the U.S. Department of Transportation, between 1945 and 1975, unrecompensed Federal expenditures to build, operate and maintain inland navigation facilities exceeded $10.6 billion, while during the same period Federal aid to America's freight railroads totaled $326 million.[1] Thus, it is no coincidence that the declining financial health of America's freight railroads began following World War II and bottomed out in 1976 when Conrail was created out of the remnants of numerous railroads. Even when one considers the value of early land grants, post Civil War loans, and Reconstruction Finance loans to the railroads, plus post World War II aid through 1975, the sum total of all Federal aid to the railroad industry from its beginnings in the mid-19th Century to 1976 is less than $900 million. That is according to the U.S. Department of Transportation.[2] Compare that with the almost $11 billion in Federal subsidies for inland navigation projects just between World War II and 1976.

As Safeway Stores could not compete against another supermarket chain whose stores were built and provided rent free by the Federal government, neither can America's freight railroads compete against barges whose rights-of-way are built and provided free of charge by the Federal government.

Consider what happens to railroads as a result of subsidies for navigation improvements. As mentioned earlier, barges, not having to factor rights-of-way costs into their rates, as railroads must, are able to offer rates below actual resource costs. To retain traffic, railroads must then reduce their rates on water competitive traffic below fully-allocated costs. This may benefit a handful of bulk shippers with access to the waterways who can take advantage of those lower rates, but it is devastating to others. Those damaged include bulk shippers without access to waterways who cannot take advantage of artificially low barge rates and who thus suffer an inequitable disadvantage vis-a-vis their competitors who do have access to the waterways. Also damaged are non-bulk shippers who couldn't use the waterways even if they had access. Both bulk shippers without access to the waterways, and non-bulk shippers, also suffer the results of a declining rail traffic and rail revenue base. Absent a concomitant savings in rail fixed costs, such traffic and revenue diversion put upward pressure on the rates of remaining commodities which are called upon to keep the railroads solvent. Also, the general taxpayers may still be called upon to bail out the railroads as a consequence of unnecessary Federal subsidies to rail competitors. Indeed, subsidies beget more subsidies.

Another important point to consider is that subsidies for navigation improvements, while sometimes acting as a magnet for industrial development, do so at the expense of other regions of the nation. Waterways development does not necessarily result in an increase in the total goods and services produced. More often, such development encourages plants to relocate from the Northeast, for example, to the Southeast. Departing industry leaves experienced labor behind and requires the regions losing their industrial tax base and jobs to then seek subsidies of their own. Though such plant relocations are always computed as project benefits, they are not national economic benefits but rather regional transfers.

Public Law 95-502 provided for an excise tax on barge fuel to begin last October 1. But this tax will recover, in its first full year, less than four per cent of the $800 million General Heiberg told this Subcommittee last summer would be spent during the same period by the Corps of Engineers for construction, operation and maintenance on the inland waterways.[3] And even when the fuel tax escalates to 10 cents per gallon in 1985, it will recover no more than 10 per cent of annual Corps expenditures on the inland waterways system.

This Subcommittee has been told by those who would perpetuate waterways subsidies that user charges will only result in higher prices to consumers. They ignore not only that the costs of waterways development continue regardless of who pays the costs, and that such costs tend to be higher under the existing subsidized means of waterways development. I touched on this point earlier. It is so because the market place is not being allowed to test the value of proposed waterways projects. Economic efficiency is best served when the market makes resource allocation decisions. When the market is not allowed to make such decisions, projects may carry a higher total cost to society if scarce economic resources are being wasted by being allocated to lower value uses than should be the case.

It should be clear that if general taxpayers continue to subsidize the construction, operation and maintenance of navigation facilities, not only will beneficial users be escaping a cost which they should bear, but the total costs to society will be greater than if direct beneficiaries of such projects are responsible for project costs. I cannot overemphasize the fact that if general taxpayers continue to subsidize waterways development and, in the process, railroads fail because they cannot compete with such subsidized competition, then the same general taxpayers will have to bail out the railroads. If I may quote from Pogo: "The taxpayers gets to pay twice for nothing."

When we talk about waterways subsidies we are not talking about national defense, which the private sector cannot itself provide. We are not talking about the hungry and homeless who cannot take care of themselves and who need public assistance. We are talking about a barge industry which, for the most part, is owned by big oil, steel and international grain marketing firms, an industry which, under all definitions of equity, ought to pay for its rights-of-way.

It has been charged that America's freight railroads themselves are the recipients of massive amounts of Federal assistance, and thus do not come before this Subcommittee with clean hands in regard to the concept of competitive equity.

America's freight railroads do not deny they have received and are receiving Federal aid. All forms of transportation have received Federal aid at one time or another. We do not suggest that the barge industry repay the value of its past aid -- even though the U.S. Department of Transportation has concluded that barges have been the recipients of some 30 times the amount of aid as freight railroads. We suggest that the barge industry begin paying its way on future construction and future maintenance so that all modes -- railroads included -- can be put on a pay-your-own-way basis. There is no reason why the general taxpayers should be called upon to subsidize rights-of-way construction, operation and maintenance for private sector transportation firms.

I ask permission to have inserted in the record a short book entitled, Competitive Equity - The Freight Railroads' Stake, which traces the origins of Federal aid to all the surface transportation modes, and determines, from Federal studies, what past aid has been repaid. The book also gives special emphasis to land grants, direct loans, government guaranteed loans, and the matter of Railroad Retirement -- the railroad equivalent to Social Security.

Last year, America's freight railroads paid almost $200 million to states, local school districts and communities in ad valorem taxes on rights-of-way, a tax fully escaped by our barge competitors because their rights-of-way are publicly-owned. Additionally, America's freight railroads paid some $200 million more in other property taxes, and had accrued Federal income tax liabilities for 1980 of $600 million. Thus, a freight railroad system which must be nationalized because it is not permitted to compete in the market place could mean the loss of almost $1 billion annually in various Federal, state and local taxes, plus a massive new tax burden on the public which would then have to continue railroad service which was no longer provided by taxpaying, private sector corporations.

The choice facing Congress goes beyond what level of user charges to assess commercial barges. To be decided is whether America's freight railroads are going to continue to be private sector, taxpaying corporations, allowed to compete in the market place, or whether, because of massive subsidies to competitors, railroads will become wards of the state.

We have seen what monumental burdens result from railroad failures. The creation and funding of Conrail, to maintain the existing structure of rail service in the Northeast, cost the taxpayers $3.3 billion. It is now clear that much of this loan may not be repaid by Conrail. Although the government will probably recover some of the funds when it sells the properties, the government, until now, has rejected the idea that a market solution for the bankrupt Northeastern railroads was appropriate. In order to avoid what it presumed to be the crisis nature of problems that would arise if the bankrupts discontinued service, the government decided to preserve the Northeastern rail network through the creation and funding of Conrail.

That view is apparently at an end. And my Board, representing 98 per cent of the nation's rail traffic, will not urge that this subsidy be perpetuated. Nor have we opposed the sharp reductions in the other financial programs of the 4-R Act.

What is important to recognize is that the Federal aid railroads are receiving today is aid made necessary because railroads were not allowed to compete in the market place yesterday, and because railroad competitors received billions more in Federal aid yesterday than did the railroads. And I want to point out that the basic form of aid being given most railroads by Congress today is in the form of loans, loans which carry interest, loans which are to be paid back, loans against which railroad assets are pledged, and loans which place social obligations on the recipients. This is quite different from outright subsidies for navigation, subsidies which carry no quid pro quo, and subsidies which accrue to some of the nation's largest and most profitable oil, steel, and international grain marketing firms which own and operate barge lines.

Nothing short of passage of S. 810 is going to restore competitive equity between the railroads and the barges. S. 810 will impose on the barge industry the same private sector financial disciplines faced by private sector railroads. Those disciplines require that if project benefits truly exceed project costs, the beneficiaries must either be willing to pay the full costs or do without the project. S. 810 recognizes that navigation projects must have their existence and value tested in the market place.

Until all competing forms of surface freight transportation are placed on equal footing, the future of America's freight railroads as private sector, taxpaying corporations is not at all certain. It is for reasons of competitive equity, and competitive equity alone, that the freight railroad industry urges the passage of S. 810.

I would, however, like to make some observations about S. 810 and Amendment No. 32.

It is our belief that the Secretary of Transportation, who is responsible for the well-being of all competing transportation modes, should be charged with developing an equitable user charge system. The close association of the Secretary of the Army with the Corps of Engineers gives the appearance, no matter how well intentioned the incumbent, of the fox guarding the chicken coop.

We tend to support a pay-as-you-go approach to new project construction, since allowing amortization over the life of the project, at interest rates comparable to rates faced by the Federal government, has an adverse affect on private sector firms. Railroads, which themselves must regularly enter the capital markets, face interest rates a good deal higher than rates available to the Federal government. Tying waterways project interest rates to T-bill rates results in a significant increase over interest rates now used in project benefit-cost analysis. But any rate below what private sector firms, exhibiting similar risk characteristics as barge firms, pay still results in an inequitable subsidy at the general taxpayers' expense.

We believe that if Congressional authorization is to be waived for new construction financed from the Waterways Trust Fund, that 100 per cent of the construction costs should be borne by the beneficial users, and that those costs should be paid on a pay-as-you-go basis and not amortized. This will prevent the general taxpayers from having to take over cost responsibility for a poorly conceived project with illusory benefits.

Thank you for this opportunity to appear. I am prepared to respond to any questions.

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[1] Report by the Secretary of Transportation, Study of Federal Aid to Rail Transportation, Jan., 1977.

[2] Ibid.

[3] Testimony of General E. R. Heiberg III, Director of Civil Works, Corps of Engineers, before Senate Sub-Committee on Water Resources, July 28, 1980.

Statement of Donald M. Meisner
Director, Siouxland Interstate Metropolitan Planning Council
to the Subcommittee on Water Resources
Senate Committee on Environment and Public Works
Washington, D.C., June 16, 1981

Sen. James Abdnor, Chairman

Sen. Abdnor and Members of the SubCommittee:

I am Don Meisner, Director of the Siouxland Interstate Metropolitan Planning Council (SIMPCO) of Sioux City, Iowa. SIMPCO is supported by 51 local governments in Northwest Iowa, Southeast South Dakota, and Northeast Nebraska. Founded in 1965, SIMPCO has a professional staff of 20 persons educated, trained and experienced in the fields of public administration, business administration, economics, engineering, and other fields.

We are very involved in many water resource issues and programs including flood control, water supply, water quality, water use, navigation and recreation. At this time, I chair two local flood control project committees.

The Missouri River is our primary natural resource and our principle geographic feature. During the last few years, SIMPCO has undertaken several studies concerning the Missouri River. These studies have analyzed the river's historic and archeological resources, high bank erosion problems, land use regulations, overall policy framework, woodlands and wetlands, and navigation issues.

In early 1978, we completed a short study entitled "An Economic Analysis of the Impact of Waterway User Charges on Commercial Navigation to Sioux City, Iowa."

Since that time, Congress has adopted a fuel tax for commercial users of the inland waterway system, including the Missouri River from its junction with the Mississippi River at St. Louis to River Mile 734.8 at Sioux City. The fuel tax legislation, Public Law 95-502, also directed the Secretaries of Transportation and Commerce to assess the impacts of waterway user charges.

In recent months, there have been several proposals for the recovery of costs associated with maintenance, operation and construction of navigation projects.

SIMPCO has recently completed another study examining the effects of user charge increases on commercial traffic on the Missouri River. This study, which is attached to this statement, is entitled "An Analysis of the Impact of the Loss of Navigation to the Sioux City Area."

The findings of this study are summarized as follows:

Waterway user charges above 17¢ per gallon will drive nearly all grain traffic from the Missouri River. Navigation rates for all goods will then rise. Our industries and producers will suffer accordingly. Comparative transportation rates will likely rise. As a result, there will be significant direct and indirect costs to the area. Longer term results could mean the loss of navigation on the Missouri River, render it less attractive for recreation, and could well lessen our claim to Missouri River water supplies.

Implementation of high-level waterway user taxes is tantamount to a Congressional decision to disinvest in the development of this region. The broader ramifications of such a policy decision affect the basis of the Federal-regional relationship in both transportation and regional development.

We must first understand the results of such an inferred policy before such policy is implemented. As a first step, we believe Congress should develop a coherent and consistent national intermodal transportation policy. We need to recognize that national transportation never has been nor never will be the exclusive domain of private industry.

For regional development, the imposition of the proposed waterway user charge, in our area, will intensify the disparity of investment and Federal spending policies that have hurt the Northeast-Midwest areas for the last several years. Our out-migration patterns that have been dramatic since 1930 will continue. The costs of such migration will be borne by other functions of the Federal and local government.

Before you take action to implement high-level or segment-specific waterway user charges which could jeopardize commercial navigation on the Missouri River, we sincerely request that the Congress consider the adverse regional effects of such user charge impositions.

Siouxland Interstate Metropolitan Planning Council
P.O. Box 477
Sioux City, Iowa 51102

AN ANALYSIS OF THE IMPACT
# of the
LOSS OF NAVIGATION
to the
SIOUX CITY AREA, 1981

Prepared By:

Regina M. Pryce

SIOUXLAND INTERSTATE METROPOLITAN PLANNING COUNCIL

April, 1981

ACKNOWLEDGEMENTS

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The author is grateful for the help and cooperation provided by various business and government representatives who were contacted in the course of this project. Special thanks must go to the individuals who took the time to review and offer constructive suggestions to improve the study.

[The following has been excerpted from the above named study. The complete document has been retained in the committee files.]

DISCLAIMER

The opinions, findings and conclusions expressed in this study are those of the authors, who are responsible for the facts and accuracy of the material presented herein. The contents do not necessarily reflect the official views or conclusions of the National Waterways Conference, Inc.

8.0 Summary and Conclusions

Two basic questions are inherent in the debate over waterway user charges on the Missouri River:

1. What is the nature of the policy choice involved in the imposition of waterway user charges?
2. What are the broader implications of this policy?

The intent of this research has been to clarify the impact which proposed levels of waterway user charges would have on the Siouxland area and the Missouri Valley as a whole. The conclusions indicated by this study are several:

Waterway user charges above 17¢ per gallon will drive all or nearly all grain traffic from the Missouri.

Grain traffic makes up about one-half the volume of commercial tonnage on the river. It absorbs substantial back-haul charges and its rates in effect subsidize the shipment of many other commodities on the river, especially those carried upstream. The disappearance of grain shipments will drive up rates for all other commodities to non-competitive levels.

The Missouri River waterways industry will no longer be competitive with alternative shipping modes.

Loss of navigation will result with either a segment toll or a substantial fuel tax, bringing about a $18.6 million annual loss in transportation savings on the Missouri. The Siouxland area's share of this loss would amount to $3.9 million.

Additional economic losses would occur in river terminal operations, in the towing operations on the river, and in the economies of the major cities along the river. Sioux City's share of these losses alone amounts to almost $2 million.

Agricultural incomes would sustain the greatest economic impact as shippers would have to pay much higher rates to alternate modes of transport with no means to pass on these costs.

The practical result over a few years time will be a situation in which one means of transport--rail--will exercise market dominance throughout the Missouri Basin in long haul transport.

Secondary effects will include a possible loss of water rights and adverse impacts on recreation possibilities and future plant expansion and investment.

These facts constitute the outlines for a clear policy choice facing

Congressional representatives. The imposition of waterway user charges across the board at the levels now proposed, without regard for their effects upon the regions served by each waterway, means a clear intent to allow navigation to die on a number of the nation's waterways. With respect to the Missouri specifically, this choice involves the intent on the part of the federal government to disinvest in the development of the region. It means that the railroads will again acquire a monopoly of shipping for long haul/high bulk shipping throughout the Missouri Valley, and no competition will remain to promote efficient management of available transportation.

The broader ramifications of exercising the policy choice outlined above go to the heart of federal/regional relations in two areas--transportation and regional development. At the base of the current problem in transportation is the lack of a coherent and consistent policy at the federal level. What is needed is a clear understanding that while competition is healthy within and among various transportation modes, the transportation system as a whole is not, and cannot be considered an arena of free enterprise. To perpetuate that myth is dangerously to misunderstand the role that transportation plays in the economic and social life of the nation. This fact can be illustrated vividly in the waterways industry. Billions have been invested by private corporations, municipal authorities and states based on the assumption of a partnership with the federal government on the basis of free use of the waterways. In return for investment, these entities received not ownership or control of the waterways system, but access only. Barge lines do not exercise control over their own technology. To allow each corporation or group to alter existing locks, dams, channels, tributaries, etc. to further their technological purposes would constitute madness. Under these circumstances, to mandate that the barge industry "pay its own way" is to misunderstand the whole nature of navigational development and the roles of the private and public sectors within this development. The "pay its own way" argument assumes that the commercial users of the waterways (i.e., shippers and garge lines) are synonymous with the beneficiaries of the system and that the federal government absorbs the whole cost of waterways operations. A careful look at who actually benefits and who pays for the development of navigation, however, illustrates the simplistic nature of this argument. The federal government does not own the waterway transportation system, but is only one of a number of partners in a joint venture which includes state and local governments and many private investors. While the federal government's contributions are important, they are not always the largest or most numerous of the many kinds of investments which are required to produce a modern system of marine transportation. No one, today, knows how much money is actually spent and what proportion of the total cost is borne by the federal and non-federal sectors. Similarly, a list of the beneficiaries of navigation would have to include consumers who benefit by lower prices for commodities and raw materials, the general public which shares in the increased strength of the export economy and the dollar and in the defense capabilities that a good system of inland waterway transportation provides. It would have to include local and state economies, industrial development and producers of goods for market. Indeed, the benefits of the inland waterways system and of all transportation systems radiate throughout the nation's economic system. Only when this universal aspect of transportation is understood can there be a true assessment of responsibilities and a coherent, fair and equitable transportation policy.

Not only is a coherent transportation policy lacking, but so is a realization and frank admission at the federal level that policies designed to achieve legitimate federal purposes can create havoc at regional levels. The grain embargo may or may not have achieved the foreign policy objectives for which it was designed. What it surely has done in the Missouri Valley is to transfer vast shipments of grain in a very short time away from Gulf ports and waterways transport to West Coast ports and rail transport. Thus the Missouri River waterways industry and the region as a whole are caught up in the cross-purposes of federal policies. Surely the federal government cannot ignore the consequences of such actions in order to retain the myth of free enterprise.

In the question of regional development, too, the imposition of waterway user charges has far-reaching implications. While sectional and regional disputes are an old story in the history of the nation, common sense would dictate that each region should be able to expect an even-handed approach on the part of the federal government toward regional development and return of services for tax dollars. Few regions in this country have developed without substantial public investment and no region is unaffected by an outflow of federal investment. In recent years, federal dollars have shifted more and more away from the Midwest and Northeast and toward the South and West. Iowa and Nebraska, the two states most affected by the loss of navigation, are near the bottom in federal spending per capita and near the top in federal tax burden per capita. These imbalances translate into declining economies, loss of population and the flight of tax-paying and job-producing industries.

Under these circumstances, it is reasonable to expect that policy regarding user charges not be made in a vacuum, but that all due attention be given to the consequences of such a policy to each inland waterway and the region it serves. The Inland Waterways Revenue Act of 1978, Section 205, has provided a mechanism for this analysis. Combined with other regional studies, the Department of Transportation research effort should result in a much-needed clarification of the current situation.

But even beyond this mandated research, an argument can be made for an entirely new approach toward funding and maintaining capital improvements in the nation's transportation system. Every portion of the transportation system has a backlog of capital needs. Instead of the current piecemeal system of subsidies and mode by mode financing, a new mechanism is needed for financing capital improvements and maintenance on the basis of an interdependent transportation system. This National Transportation Fund could be financed through a cross-modal tax system such as a commodity tax on weight and volume. Under such a system the regional distortions and conflicts brought about by modal competition for government subsidies could be avoided to a large extent and competition could be returned to its proper arena, i.e., to the efficient handling of cargo and servicing of customer accounts.

TESTIMONY OF
LLOYD ANDERSON, EXECUTIVE DIRECTOR
PORT OF PORTLAND, P.O. BOX 3529, PORTLAND, OREGON 97208
SUBMITTED TO
U.S. SENATE SUBCOMMITTEE ON WATER RESOURCES
WASHINGTON, D.C.
(INLAND WATERWAY HEARING)

JUNE 16, 1981

TESTIMONY OF
LLOYD ANDERSON, EXECUTIVE DIRECTOR
PORT OF PORTLAND, P.O. BOX 3529, PORTLAND, OREGON 97208
SUBMITTED TO
U.S. SENATE SUBCOMMITTEE ON WATER RESOURCES
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(INLAND WATERWAY HEARING)

JUNE 16, 1981

I am Lloyd Anderson, Executive Director of the Port of Portland. I represent the concerns of the Pacific Northwest ports in Oregon, Washington and Idaho. On Friday, June 12, 1981, I testified before this subcommittee on the deep-draft panel. At that time I offered some detailed suggestions for your consideration on behalf of the Port of Portland and the Columbia/Snake River ports.

Today I will briefly present some of the materials from my deep-draft testimony that relate to this shallow-draft hearing. I will also present some new material on the impacts of the present bills on the Columbia/Snake system. The reason I want to present some of the same material at both hearings is we cannot stress enough that this committee needs to understand that the deep- and shallow-draft ports and waterways are, in fact, one system. They work in tandem and support each other.

The Northwest ports are representative of the divergent navigation needs of ports throughout the country. These ports include small and large ports; river and coastal ports; deep-draft ports and shallow-draft ports; ports which accommodate foreign exports and imports, as well as coastwise and inland domestic trade, including breakbulk, containers, wheat, automobiles, bulks, agricultural products, and forest products.

The Pacific Northwest ports recognize the objective the Administration has to recover federal expenditures for the national ports and waterway system. However, in addition to raising money, the objective of any transportation or port development legislation should be to improve the nation's transportation system and to improve our position in world markets. The Northwest ports agree that the standards and measurements for success of any such legislation should be--does it:

- Maintain a viable, competitive transportation system.
- Minimize inflation, economic dislocation, and unnecessary increases in fuel consumption.
- Minimize the impact on United States competitiveness in world markets.
- Minimize shift of cargo to Canada or other foreign ports.
- Minimize disruption to the relative competitive position of ports.
- Recognize that the inland shallow-draft and deep-draft waterways together make a national transportation system, and that inland shallow-draft and deep-draft should be treated as one system.

As I argued before, the Administration's proposals (S. 809 and 810) and Senator Domenici's amendments will negate the accomplishment of these objectives.

Under the Administation's proposal, the high levels of cost recovery are mandated, not voluntary, for the shallow-draft waterways. These are federally determined, imposed, collected, and spent. In Amendment 32, the shallow-draft system is treated differently than the deep-draft system. Fifty percent of the cost of new construction and 75 percent of the operation and maintenance costs would be recovered throughout the existing system. This would be recovered on a segmented basis. These segmented charges will have the same negative impacts as the Administration's proposal.

THE PACIFIC NORTHWEST PORTS

The Pacific Northwest ports cannot support a proposal that divides the deep- and shallow-draft portions of the waterway system and puts the burden of cost recovery on only one part of that system.

It is the Pacific Northwest ports' position that user charge legislation must be developed with far better knowledge about the impacts than is available now, including the results of the Section 205 study and additional studies of the impact of proposed legislation on the port system, the communities which operate port facilities, on the overall transportation system of the United States and on the national economy.

If user charges are mandated:

- They should apply only to new construction beyond the existing system and beyond those projects pending completion of studies authorized by Congress;
- They should be imposed on a partial recovery basis; and
- The level of partial recovery should be determined by the results of the studies of the impact on the national economy.

Furthermore, the Pacific Northwest ports agree that if revenue is needed to finance the existing system:

- Revenue should be raised on a partial cost recovery basis.
- The existing system and those projects pending completion of studies authorized by Congress should continue to be a part of the federal waterways system with charges administered by the federal government.
- Such user charges should be phased in over a period of years.

- o The type of charge should be a surcharge on customs duty assessed at the time of entry to the United States.

Also, before any user charge legislation is enacted by Congress, the appropriate committees of Congress should hold public hearings throughout the various regions of the country, specifically including public hearings to be held in the Pacific Northwest.

A PROPOSED ALTERNATIVE

The Port of Portland and the Columbia/Snake River ports recognize that it will not suffice to limit our testimony to the shortcomings of the present bills. With my June 12 testimony, a proposal and a draft bill (Attachments A & B) were submitted that will meet the objectives of the Administration and which are consistent with the other objectives that the Pacific Northwest ports have expressed.

I strongly urge this committee to consider that draft bill and proposal as an example of what kind of legislation could possibly meet the objectives of the Administration and be responsive to the concerns that ports in my own area have.

Although we are talking only about shallow-draft legislation today, this committee needs to understand that the deep- and shallow-draft ports and waterways are, in fact, one system.

This draft bill is being proposed to meet four basic objectives:

- o Raise the money the Administration needs to continue federal involvement in national ports and waterways.

- o Treat the deep- and shallow-draft ports and waterways together as one system;

- Maintain a viable port and waterway system that can contribute to the navigation, trade and economic development needs of the nation; and

- Minimize the potential negative impacts of cost recovery programs such as cargo diversion and port and waterway decline or closure.

These objectives are met through a number of key elements that are included in this proposal.

- Deep- and shallow-draft are treated the same. The deep- and shallow-draft waterways work in tandem to provide a national transportation system. Each works to collect and distribute traffic from the other.

The following highlights the key elements of my earlier testimony of June 12 (See Pages 2-4 of Attachment A).

Operations and Maintenance

- One hundred percent of deep- and shallow-draft operation and maintenance costs are recovered. TABLE 1 gives a breakdown of the recovery schedule for this proposal.

- A nationwide uniform charge is proposed. A uniform charge will maintain the viability of the existing port and waterway system. This charge has the following two components.

  * The existing shallow-draft fuel tax is maintained. (PL 95-502) This tax will recover $100 million from domestic movements and imports and exports using the inland waterways.

  * A customs duty surcharge will recover the remainder of operation and maintenance expenditures. An 8 percent surcharge on customs duties will recover funds needed for all deep- and shallow-draft operation and maintenance.

TABLE 1

SUMMARY OF PROPOSAL

Cost Recovery for Operations and Maintenance

($ millions)

	1982	1983	1984	1985	1986
and					
thereafter					
Expenditures[1]					
Shallow Draft	320	320	320	320	320
Deep Draft	320	320	320	320	320
Total	640	640	640	640	640
Recovery					
Fuel Tax (PL 95-502)	60	60	80	80	100
Customs Surcharge[2]	-	150	300	450	600
Total	60	210	380	530	700
Net Federal Contribution to O&M	580	430	260	110	(60)

(1)Source: Office of the Chief of Engineers, Army Corps of Engineers, 1982 Budget.

(2)Based on surcharge on $7.5 billion in customs duties collected in 1980 phased in at 2 percent per year to a maximum of 8 percent.

- A trust fund is established for depositing all collections. The fuel tax and customs surcharge will be deposited in the trust fund established by the Inland Waterways Revenue Act of 1978 (PL 95-502). This will ensure that sufficient funds are available to continue operation and maintenance at the existing port and waterway system. The Trust Fund should be retitled the Waterways Trust Fund.

- The customs surcharge is phased in over four years.

New Construction

- Twenty-five percent of all new constuction costs are recovered from local public bodies. If a local public body wants to improve their port or waterway beyond the existing system, they must pay a portion of the new construction costs.

- Ports and local public bodies are authorized to collect user fees.

- Ports and public bodies are authorized to develop new construction projects without congressional authorization if they pay 100 percent of new construction costs.

- One hundred percent of operation and maintenance costs are recovered once construction is completed.

We believe this national cost recovery program combining the inland waterways fuel tax and a customs surcharge will work. It meets the Administration's cost recovery objectives. It maintains the present national port and waterway system and provides for improvements to the system. It minimizes the negative impacts on the national economy. And it is easy to administer.

As I have stated, we strongly urge that you first wait for the results of the Section 205 study and other impact studies. If a cost recovery program must be instituted now, it should retain the inland waterways uniform fuel tax and impose a nationwide customs surcharge approach.

Any other proposal that relies on segmented user charges has much more severe negative impacts and creates problems in allocation of costs. If one of these other approaches is considered, additional study must be done to determine the potential negative impacts and to develop solutions to overcome them.

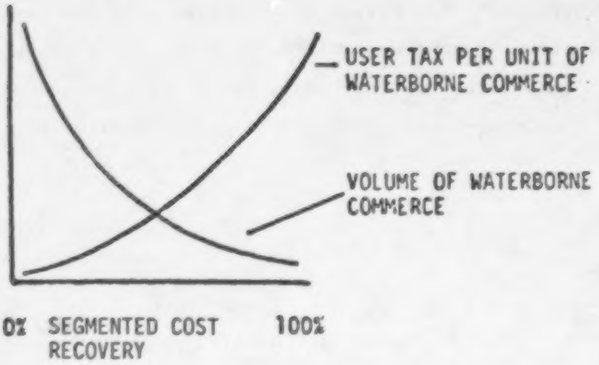
QUESTIONS

Given the perspective I have laid out for you, let me respond to the questions that were published in the press release announcing this hearing.

Damage to the Barge Industry. The cost recovery programs proposed by S. 809 and 810 and Amendments 31 and 32, will severely damage the inland waterways. The Administration's proposal for segmented user charges will result in the following sequence of events:

- Transportation costs increase for all waterborne commerce.
- The volume of cargo moving on the waterways is reduced. Some cargo will shift to other modes. Some cargo cannot absorb the increased costs and stops moving.
- There is a resultant increase in the segmented user charge. To recover the same amoumt of money with a reduced volume of cargo, the remaining cargo will have to pay more.

This results in a vicious circle where taxes get higher and the volume of cargo gets lower. For some waterway segments, this could ultimately continue until all commerce is driven to other modes.

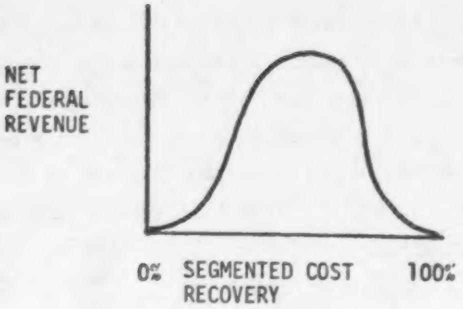


Which waterway segments will be closed? Closure will not be based upon national economic efficiency, energy efficiency, or a national transportation policy. It is clear that the proposed legislation will force the closure of higher cost segments, longer segments and lower volume segments.

Only those segments that can afford to pay for O&M themselves will survive. This impact will then be felt by individual ports. The ultimate result will be that only the largest volume ports will be able to cover their costs. The biggest ports will get bigger at the expense of small and mid-size ports.

This approach to waterways may be reasonable for national cargo (intermodal container) at the few national ports. However, it will have severe adverse impacts on local and regional ports, and the local and regional economies they support.

Furthermore, the closure of some systems will have an impact on total revenues generated by the federal government. As segmented user charges are assessed, less cargo will move on the waterway system. The result resembles the Laffer curve in that, as user taxes increase, less revenue is generated.



This relationship will hold if the existing system is maintained in its present form. Federal waterway expenditures will remain constant, but after a presently unknown level of cost recovery is reached, federal revenues will decrease.

This relationship also holds if, as some proposals have suggested, high cost segments are closed down. Federal waterway expenditures decrease as revenues decrease. But additional federal expenditures will be needed as a result of the economic dislocation associated with closing waterway segments. Thus, the net federal revenues decrease.

Contrary to the above scenario, a uniform charge establishes equal fees among all waterways. By doing this, cargo does not move from one waterway to another or to other modes. Each waterway and port is, therefore, able to sustain its present level of activity. This preserves the existing waterway system by keeping all waterways open. By keeping all ports and waterways open, the vicious circle of reduced traffic and higher taxes does not occur. Furthermore, the cost recovery provisions of this bill ensures that federal revenues will increase.

Columbia/Snake Example. Potential impacts of the Administration's proposed legislation were developed for shallow-draft, deep-draft, and new construction user charges for the Columbia/Snake river system. The impacts of segmented user charges were estimated on a per-ton basis and, for illustration, on a 50,000-ton shipload of export grain. For the Columbia/Snake, 50 percent of the grain vessel cargo is barged to deep-draft ports. With segmented charges, the users of each river segment pay for the costs incurred in that segment. The effect would be too close the upper river system.

Individually, the impacts of shallow- and deep-draft segmented charges as well as new construction charges pose serious threats to the Columbia/Snake river system. Combined, the effects could be devastating. The combined segmented total user taxes paid for shallow- and deep-draft O&M could be as high as $23,750 for each 50,000-ton grain ship call in the Columbia River. Adding new construction costs of enlarging Bonneville Lock and deepening the mouth of the Columbia would bring the total taxes for each 50,000-ton grain ship call to $63,750.

The potential of a $63,750 segmented tax per grain ship illustrates the critical nature of the proposed legislation. The Columbia/Snake and other river systems are in a particularly vulnerable position because they would be taxed twice, once for the shallow-draft inland connection and once for the deep-draft channel to the sea.

These additional segmented charges will divert cargo. In the Pacific Northwest, this diversion can occur from the Columbia/Snake to Puget Sound ports. This will have a local impact. A more serious national impact will occur as cargo shifts from the Columbia/Snake and Puget Sound ports to Vancouver B.C., Canada. Vancouver B.C. has the capability of handling grain, dry bulks, coal and container cargo. Similar potential exists for diversion of cargo from the U.S. Gulf Coast to Mexico and from the Great Lakes to Canada.

The extent of this cargo diversion was estimated for deep-draft Lower Columbia River ports. Conservatively, the immediate oceangoing cargo loss is estimated at 4 to 5 million tons. This represents 15 percent of the total volume of cargo in 1980. In the longer run, cargo loss is expected to be even greater.

It should be emphasized that these estimates are not "worst case" estimates. There is real potential that the Columbia River could lose a much larger proportion of its cargo as present leases and contracts expire. Containers, logs/lumber/plywood, autos, dry bulks, grain, and other agricultural products are particularly vulnerable.

The impact would be even more dramatic for the ports on the shallow-draft portion of the system. They would lose their share of the Lower Columbia cargo, plus other barged cargo would be diverted to other modes.

The loss of 4 to 5 million tons of cargo on the Lower Columbia River will have a severe impact on the economy of the region. Handling this volume of cargo adds a total of about $7[illegible]0 million to the region's economy and creates over 15,000 jobs.

Competition Among Transport Modes. It cannot be presumed that rail transport could effectively replace water transport. It is questionable the railroads have the capability to handle additional high volume bulk commodities. Moreover when navigation offers a competitive transport mode, railroads are forced to keep their rates competitive. If navigation user charges are increased, rail rates will rise to new levels. Truck rates will also increase since their rates are often based on rail competition. Additionally, neither of these modes is as energy efficient as the waterways for transport of bulk commodities.

Retaining the uniform fuel tax on the inland system and implementing a customs surcharge approach on the deep-draft system, will not directly increase transportation costs over those presently legislated. The competitive position between all the modes will remain the same. This will avoid large shifts from one mode to another that could strain individual modes' capacities.

Cost Sharing. Our proposal outlines a uniform national customs surcharge that recovers 100 percent of the operations and maintenance costs for the deep- and shallow-draft system. It also provides a 25 percent local cost share on all new construction.

Priority. Our proposal will force priorities to be made on new construction and will do so with the least negative impact. Segmented user charges will affect priorities for both public and private investments. Segmented user charges will inhibit new economic activities on the Columbia/Snake system. Opportunities for new public and private investment in port facilities and industrial activities will be lost. For example, the Port of Porland Marine Terminals Master Plan calls for $300 million investment in new facilities at one port. Investment of this magnitude will not occur if the proposed legislation is implemented.

Phase-in. Our proposal will retain the present uniform fuel tax schedule on the inland system and phase-in the customs surcharge on the deep-draft over four years. Although the impacts of our proposal are minimal, a four-year phase-in period will give port and waterway users an opportunity to adjust to new levels of cost recovery.

Federal Role. Our proposal continues the Corps/Congressional authorization process for new projects. We believe this is important. It also maintains the present federal role in operation and maintenance of the port and waterway systems.

Thank you for the opportunity to present testimony on behalf of the ports of the Pacific Northwest and also the Port of Portland.

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STATEMENT OF EDWARD V. MALLOY
SENIOR ANALYST (ECONOMICS), CONSAD RESEARCH CORPORATION
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES
SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, D.C.

JUNE 16, 1981

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE,...

FOR THE RECORD, I HAVE SUBMITTED A COPY OF THE INITIAL PHASE OF A STUDY BEING DONE FOR THE PITTSBURGH WATERWAYS ASSOCIATION ON THE IMPACT OF USER CHARGES ON THE PITTSBURGH ECONOMY. THIS STUDY EMPHASIZES THE FACT THAT USER CHARGES, HOWEVER CALCULATED, END UP AS INCREASES IN THE COSTS OF COMMODITIES THAT EMPLOY RIVER TRANSPORT IN THEIR PRODUCTION OR DISTRIBUTION.

CHANGES IN PRODUCTION AND DISTRIBUTION COSTS, THOUGH SMALL, MAY HAVE PROFOUND IMPACTS WHEN WE CONSIDER THAT THE PRODUCTION TAKES PLACE IN A COMPETITIVE ENVIRONMENT. SOME OF THESE IMPACTS ARE SUBJECT TO ESTIMATION BEFORE-THE-FACT. INCREASED COSTS MAY MEAN REDUCED SALES, SINCE A FIRM'S MARKET AREA MAY BE REDUCED. TRANSPORTATION MODE SHIFTS MAY OCCUR, AND PATTERNS OF PRODUCTION INPUTS MAY CHANGE. THESE DIRECT EFFECTS, AND THEIR INDIRECT IMPLICATIONS, HOWEVER, ARE ONLY PART OF THE POTENTIAL IMPACT OF WATERWAY USER CHARGES.

FOR YEARS INVESTMENT IN PRODUCTION PLANTS AND OTHER FACILITIES WAS BASED ON A SET OF REASONS WHICH INCLUDED RELATIVELY INEXPENSIVE WATERWAY TRANSPORT RATES. INDUSTRY AND SERVICES THAT COULD BENEFIT -- EITHER DIRECTLY OR

INDIRECTLY -- FROM THE PROXIMITY OF RIVER TRANSPORTATION CONTRIBUTED TO ECONOMIC DEVELOPMENT ALONG THE NATION'S WATERWAYS. INDUSTRIAL AND COMMERCIAL DEVELOPMENT LED TO CONSIDERABLE INVESTMENT IN PUBLIC CAPITAL -- ROADS, UTILITY SYSTEMS, SCHOOLS, AND OTHER FACILITIES -- WHICH, IN TURN, MADE THE AREA MORE ATTRACTIVE FOR BUSINESS LOCATION.

MY CONCERN IS WITH THE EFFICIENT UTILIZATION OF THESE CAPITAL RESOURCES. THIS PROCESS OF DEVELOPMENT OR AGGLOMERATION IS NOT YET WELL UNDERSTOOD OR PREDICTABLE BY ECONOMIC ANALYSIS. THE IMPOSITION OF A USER CHARGE HAS THE POTENTIAL FOR SIGNIFICANTLY ALTERING THE DEVELOPMENT PATTERN OF REGIONS WHICH UTILIZE WATER TRANSPORT. LET ME BRIEFLY DISCUSS TWO POTENTIAL EFFECTS OF USER CHARGES WHICH ARE DIFFICULT TO MEASURE, YET MUST BE CONSIDERED IN ANY REALISTIC IMPACT STUDY.

THE FIRST OF THESE EFFECTS IS THE IMPACT OF ABSORBING SMALL INCREASES IN COSTS. IN A COMPETITIVE MARKET, PRODUCERS MIGHT CHOOSE TO ABSORB TRANSPORT COSTS -- AND ACCEPT A SMALLER PROFIT MARGIN -- RATHER THAN REDUCE SALES. HOWEVER, THIS DOES NOT MEAN THAT THE USER CHARGE WOULD HAVE NO IMPACT. THE REDUCED PROFITABILITY COULD LEAD TO LESS WILLINGNESS TO INVEST IN THE FACILITY. REDUCED INVESTMENT, DISINVESTMENT ACTUALLY, WILL OVER TIME FURTHER REDUCE A FACILITY'S ABILITY TO COMPETE, AND EVENTUALLY LEAD EITHER TO CLOSING OR A SIGNIFICANTLY LOWER LEVEL OF OUTPUT.

THE SECOND EFFECT IS NOT SO EASY TO CHARACTERIZE. ACTUALLY, IT IS A GROUP OF EFFECTS THAT ARE KNOWN AS AGGLOMERATION ECONOMIES; THAT IS, ECONOMIES THAT OCCUR BECAUSE OF THE "LOCATING TOGETHER" OF ECONOMIC ACTIVITIES. THE BEST

KNOWN OF THESE IS ECONOMIES OF SCALE: INCREASED LEVELS OF DEMAND LEADING TO LOWER PER UNIT COSTS. OTHER AGGLOMERATION ECONOMIES ARE ASSOCIATED WITH THE CREATION OF MARKETS FOR SPECIALIZED ACTIVITIES, INCLUDING TRAINING SCHOOLS AND TRANSPORTATION FACILITIES. AS LEVELS OF PRODUCTION CHANGE, SOME OF THESE FACTORS WOULD ALSO CHANGE -- POSSIBLY WORSENING THE IMPACT OF THE INITIAL CHANGE CONSIDERABLY.

MY REASON FOR MENTIONING THESE CONSIDERATIONS IS TO EMPHASIZE THE FACT THAT CHANGING THE RULES OF DOING BUSINESS ENTAILS MANY IMPACTS WHICH ARE NOT READILY ANTICIPATED. EVEN THOUGH USER CHARGES, IF THEY GUARANTEE CONTINUED IMPROVEMENT OF THE NATION'S WATERWAYS, MAY BE A DESIRABLE CHANGE; THEY ARE A DRAMATIC CHANGE. I BELIEVE THAT A POLICY OF GRADUAL IMPOSITION, COUPLED WITH CAREFUL STUDY OF POTENTIALLY NEGATIVE SIDE-EFFECTS SUCH AS THOSE MENTIONED ABOVE, IS THE COURSE OF ACTION WHICH YIELDS BOTH EQUITY FOR ALL, AND EFFICIENT USE OF THE NATION'S RESOURCES.

THE IMPACT OF USER CHARGES ON THE PITTSBURGH WATERWAYS

Prepared for:

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Prepared by:

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April 23, 1981

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1.0 INTRODUCTION

A user charge has recently been imposed upon the nation's waterways. This tax may affect economic activity in regions that utilize waterway transport in three ways:

- By increasing the cost of moving goods by water, it may cause some transport mode shifts to non-water transportation.
- By increasing costs in assembling production inputs (raw materials, semi-finished goods, etc.), it may make production in some regions less competitive nationally.
- By increasing the cost of reaching some markets, it may reduce the market area for some goods produced in regions using waterway transportation.

However, the present form of the user charge -- a tax on fuel oil -- makes it difficult to begin to estimate these potential impacts on commodity production and distribution, and to gauge the differential impact on geographic areas.

Obviously, production in regions which utilize the nation's waterways will be affected by this tax to a greater extent than production in regions which use little or no waterway transportation. However, it is also true that production in regions which require relatively long hauls, and/or a greater proportion of upriver hauls will be affected to a greater degree than regions where shorter water hauls, and/or more downriver hauls are employed. This is so because the length of commodity haul and the fuel expended per ton-mile (normally expressed in Btu's), as well as the level of the tax, determine the change in water transport costs caused by the tax.

Because the impact of the tax will differ by region, relative to the nature of production and transportation in that region, it is necessary to look at specific regions -- rather than some national average -- to estimate the potential impact on individual regions. This study takes the first step in estimating regional economic impacts for the Pittsburgh region. User charges on the waterways are translated into changes in costs for moving specific commodities into and out of the Pittsburgh region.

Section 2.0 discusses the results of this assignment of the tax to specific commodities. Section 3.0 discusses the next phase of impact estimation, and Section 4.0 describes the methodology employed in this study.

2.0 RESULTS

In 1976, the Pittsburgh District waterways handled over 64 million tons of commerce. This tonnage is over 12.2 percent of traffic on the nation's inland waterway system, and approximately 36 percent of the traffic moving on the Ohio River system. Clearly, the Pittsburgh region is vitally interested in any changes affecting river traffic.

The Pittsburgh District under consideration includes the Monongahela River from Fairmont, West Virginia, to Pittsburgh, a distance of 128.7 miles; the Allegheny River from East Brady, Pennsylvania, to Pittsburgh (72 miles); and the Ohio River from Pittsburgh to mile 127.2, approximately 30 miles past Wheeling, West Virginia. The district consists of less than 1.3 percent of the nation's navigable inland waterways.

The most recent data available on waterway movements were for the year 1976. These movements are described in Tables 1 through 5. However, projections were available for 1985 (the year in which the tax reaches $0.10 per gallon) and 1990. Various levels of taxes, ranging from $0.04 to $0.68 per gallon were allocated to the actual 1976, and to the projected 1985 and 1990 traffic. The results are contained in Tables 6 through 20.

The largest total dollar impacts are on the movement of coal, oil and gasoline, iron and steel, chemicals and other materials. The impact on coal is approximately evenly divided between movements into, out of, and within the district. The movements for iron and steel are predominantly out of the district. While oil and gasoline, chemicals and other minerals move into the Pittsburgh district.

The highest per-ton impacts into the district are on iron and steel, ores and chemicals. This is due to the length of haul for these commodities. Iron and steel shipped out of the district also has a relatively high change in cost per ton ($0.44 for a 10 percent tax).

These increased costs, while giving a better feel for the actual impact of the user charge, are but the initial step in estimating the overall impacts on the Pittsburgh region. The next section discusses the future directions of the study.

TABLE 1:
TOTAL TONNAGE ONTO AND OFF OF THE OHIO RIVER
FROM OUTSIDE THE PITTSBURGH DISTRICT, 1976

	Commodity	Total Tonnage	Into District	Out of District
1	Coal	9,547,467	3,964,666	5,582,801
2	Oil and gasoline	2,915,046	2,698,459	216,587
3	Sand, gravel and rock	514,606	491,071	23,535
4	Iron and steel	1,350,139	427,982	922,157
5	Chemicals	1,250,466	882,370	368,096
6	Non-ferrous ores	37,300	37,300	0
7	Other minerals	358,502	355,441	3,061
8	Iron ores	5,144	5,144	0
9	Coke	7,282	1,406	5,876
10	Alcohols	95,489	94,069	1,420
11	Cement	73,727	71	73,656
12	Non-ferrous metals	13,219	8,207	5,012
13	Fabricated metals products	17,456	6,970	10,486
14	Grain and flour	2,977	1,420	1,557
15	Clay	17,303	1,400	15,903
16	Machinery	13,908	5,205	8,703
17	Synthetic rubber	9,915	9,915	0
18	Fats	0	0	0
19	Waterway improvements	2,695	0	2,695
20	Paper and paper products	0	0	0
21	Other commodities	412,537	310,307	102,230
	Total	16,645,178	9,301,403	7,343,775

TABLE 2:
TOTAL TONNAGE ONTO AND OFF OF THE MONONGAHELA
RIVER FROM OUTSIDE THE PITTSBURGH DISTRICT, 1976

Commodity		Total Tonnage	Into District	Out of District
1	Coal	4,561,982	4,460,991	100,991
2	Oil and gasoline	1,763,121	1,709,279	53,842
3	Sand, gravel and rock	890	890	0
4	Iron and steel	710,455	45,742	664,713
5	Chemicals	218,297	20,578	197,719
6	Non-ferrous ores	11,554	11,554	0
7	Other minerals	441,547	276,197	165,350
8	Iron ores	395,630	394,681	949
9	Coke	81,254	4,005	77,249
10	Alcohols	0	0	0
11	Cement	0	0	0
12	Non-ferrous metals	19,839	19,839	0
13	Fabricated metal products	24,486	917	23,569
14	Grain and flour	0	0	0
15	Clay	1,501	1,501	0
16	Machinery	428	103	325
17	Synthetic rubber	13,808	13,808	0
18	Fats	0	0	0
19	Waterway improvements	1,033	0	1,033
20	Paper and paper products	7,124	7,124	0
21	Other commodities	135,098	121,581	13,517
Total		8,388,047	7,088,790	1,299,257

TABLE 3:
TOTAL TONNAGE ONTO AND OFF OF THE ALLEGHENY RIVER
FROM OUTSIDE THE PITTSBURGH DISTRICT, 1976

Commodity	Total Tonnage	Into District	Out of District
1 Coal	7,143	0	7,143
2 Oil and gasoline	596,177	580,637	15,540
3 Sand, gravel and rock	4,540	4,540	0
4 Iron and steel	68,867	66,726	2,141
5 Chemicals	14,250	6,631	7,619
6 Non-ferrous ores	24,071	23,561	510
7 Other minerals	121,793	121,793	0
8 Iron ores	0	0	0
9 Coke	0	0	0
10 Alcohols	70,331	70,331	0
11 Cement	0	0	0
12 Non-ferrous metals	1,806	1,806	0
13 Fabricated metal products	0	0	0
14 Grain and flour	41,346	41,346	0
15 Clay	24,245	19,970	4,275
16 Machinery	708	280	428
17 Synthetic rubber	0	0	0
18 Fats	4,229	0	4,229
19 Waterway improvements	1,370	0	1,370
20 Paper and paper products	1,196	1,196	0
21 Other commodities	132,717	130,139	2,578
Total	1,114,789	1,068,956	45,833

TABLE 4:
TOTAL TONNAGE FOR THE PITTSBURGH DISTRICT, 1976

Commodity	Total Tonnage	Into District	Out of District	Within District
1 Coal	46,602,268	8,425,657	5,690,935	32,485,676
2 Oil and gasoline	5,998,520	4,988,375	285,969	724,176
3 Sand, gravel and rock	3,841,197	496,501	23,535	3,321,161
4 Iron and steel	2,213,142	540,450	1,589,011	83,681
5 Chemicals	1,859,164	909,579	573,434	376,151
6 Non-ferrous ores	72,925	72,415	510	0
7 Other minerals	1,526,985	753,431	168,411	605,143
8 Iron ores	400,774	399,825	949	0
9 Coke	199,604	5,411	83,125	111,068
10 Alcohols	165,820	164,400	1,420	0
11 Cement	107,950	71	73,656	34,223
12 Non-ferrous metals	67,308	29,852	5,012	32,444
13 Fabricated metal products	48,994	7,887	34,055	7,052
14 Grain and flour	44,323	42,766	1,557	0
15 Clay	55,655	22,871	20,178	12,606
16 Machinery	78,513	5,588	9,456	63,469
17 Synthetic rubber	23,723	23,723	0	0
18 Fats	4,229	0	4,229	0
19 Waterway improvements	5,098	0	5,098	0
20 Paper and paper products	8,320	8,320	0	0
21 Other commodities	687,940	562,027	118,325	7,588
Total	64,012,452	17,459,149	8,688,865	37,864,438

TABLE 5:
AVERAGE MILES HAULED BY COMMODITY, 1976

Commodity	Allegheny River		Monongahela River		Ohio River		Within District
	Into District	Out of District	Into District	Out of District	Into District	Out of District	
1 Coal	--	2,026	357	552	267	336	53
2 Oil and gasoline	1,672	1,532	1,046	1,655	1,154	541	77
3 Sand, gravel and rock	469	--	655	--	183	58	47
4 Iron and steel	1;473	872	1,316	1,415	1,621	1,324	60
5 Chemicals	813	1,165	1,178	988	1,744	774	40
6 Non-ferrous ores	1,726	329	1,697	—	1,627	—	—
7 Other minerals	2,043	--	1,788	1,602	1,768	1,763	102
8 Iron ores	--	--	1,728	1,874	1,663	--	--
9 Coke	--	--	1,739	1,319	1,816	1,090	53
10 Alcohols	1,919	--	--	--	1,523	1,035	--
11 Cement	--	--	--	--	176	301	114
12 Non-ferrous metals	1,860	--	2,406	--	1,358	904	117
13 Fabricated metal prod.	--	--	1,596	1,390	1,801	1,374	74
14 Grain and flour	1,260	--	--	--	853	1,735	--
15 Clay	2,140	1,836	1,320	--	1,274	1,468	76
16 Machinery	2,547	2,274	476	1,477	714	1,365	57
17 Synthetic rubber	--	--	2,236	--	2,194	—	--
18 Fats	--	1,856	--	--	--	--	--
19 Waterway improvement	--	1,650	--	1,617	--	640	—
20 Paper & paper products	1,726	—	1,507	—	—	—	—
21 Other commodities	724	1,200	841	1,235	898	541	38

TABLE 6:
ALLOCATION OF $0.04 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$ 815,125	$ 341,399	$0.04	$ 250,966	$0.04	$ 222,760	$0.01
2 Oil and gasoline	793,028	756,130	0.15	29,631	0.10	7,267	0.01
3 Sand, gravel and rock	32,543	11,917	0.02	177	0.01	20,449	0.01
4 Iron and steel	388,721	109,670	0.20	278,404	0.18	647	0.01
5 Chemicals	266,769	201,823	0.22	62,990	0.11	1,956	0.01
6 Non-ferrous ores	15,589	15,567	0.21	22	0.04	--	--
7 Other minerals	219,234	176,471	0.23	34,798	0.21	7,965	0.01
8 Iron ores	89,119	88,890	0.22	229	0.24	--	--
9 Coke	15,926	1,225	0.23	13,939	0.17	762	0.01
10 Alcohols	36,001	35,812	0.22	189	0.13	—	--
11 Cement	3,362	2	0.02	2,857	0.04	503	0.01
12 Non-ferrous metals	9,087	8,011	0.27	584	0.12	492	0.02
13 Fabricated metal prod.	7,942	1,804	0.23	6,071	0.18	67	0.01
14 Grain and flour	7,208	6,860	0.16	348	0.22	--	—
15 Clay	10,125	5,986	0.26	4,014	0.20	125	0.01
16 Machinery	2,760	577	0.10	1,716	0.18	467	0.01
17 Synthetic rubber	6,773	6,773	0.29	--	--	--	--
18 Fats	1,010	--	--	1,010	0.24	--	--
19 Waterway improvement	728	--	--	728	0.14	--	--
20 Paper & paper products	1,648	1,648	0.20	--	--	--	—
21 Other commodities	70,891	61,179	0.11	9,674	0.08	38	0.01
Total	$ 2,793,588	$ 1,831,743		$ 698,346		$ 263,499	

TABLE 7:
ALLOCATION OF $0.06 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$ 1,222,687	$ 512,098	$0.06	$ 376,449	$0.07	$ 334,140	$0.01
2 Oil and gasoline	1,189,543	1,134,196	0.23	44,446	0.16	10,901	0.02
3 Sand, gravel and rock	48,815	17,875	0.04	266	0.01	30,674	0.01
4 Iron and steel	583,083	164,506	0.30	417,606	0.26	971	0.01
5 Chemicals	400,153	302,734	0.33	94,485	0.16	2,934	0.01
6 Non-ferrous ores	23,382	23,350	0.32	32	0.06	--	--
7 Other minerals	328,853	264,707	0.35	52,198	0.31	11,948	0.02
8 Iron ores	133,678	133,335	0.33	343	0.36	--	--
9 Coke	23,888	1,837	0.34	20,908	0.25	1,143	0.01
10 Alcohols	54,002	53,718	0.33	284	0.20	--	--
11 Cement	5,041	2	0.03	4,285	0.06	754	0.02
12 Non-ferrous metals	13,630	12,017	0.40	875	0.17	738	0.02
13 Fabricated metal prod.	11,913	2,706	0.34	9,106	0.27	101	0.01
14 Grain and flour	10,812	10,290	0.24	522	0.34	--	--
15 Clay	15,187	8,979	0.39	6,021	0.30	187	0.01
16 Machinery	4,139	865	0.15	2,574	0.27	700	0.01
17 Synthetic rubber	10,160	10,160	0.43	--	--	--	--
18 Fats	1,515	--	--	1,515	0.36	--	--
19 Waterway improvement	1,092	--	--	1,092	0.21	--	--
20 Paper & paper products	2,472	2,472	0.30	--	--	--	--
21 Other commodities	106,336	91,769	0.16	14,510	0.12	57	0.01
Total	$ 4,190,382	$ 2,747,615		$ 1,047,519		$ 395,248	

TABLE 8:
ALLOCATION OF $0.08 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District Total	Into District Per Ton	Out of District Total	Out of District Per Ton	Within District Total	Within District Per Ton
1 Coal	$ 1,630,250	$ 682,797	$0.08	$ 501,932	$0.09	$ 445,521	$0.01
2 Oil and gasoline	1,586,057	1,512,261	0.30	59,262	0.21	14,534	0.02
3 Sand, gravel and rock	65,087	23,833	0.05	355	0.02	40,899	0.01
4 Iron and steel	777,444	219,341	0.41	556,808	0.35	1,295	0.02
5 Chemicals	533,539	403,646	0.44	125,981	0.22	3,912	0.01
6 Non-ferrous ores	31,176	31,133	0.43	43	0.08	—	—
7 Other minerals	438,470	352,943	0.47	69,597	0.41	15,930	0.03
8 Iron ores	178,237	177,779	0.44	458	0.48	—	—
9 Coke	31,851	2,450	0.45	27,877	0.34	1,524	0.01
10 Alcohols	72,002	71,624	0.44	378	0.27	—	—
11 Cement	6,722	3	0.05	5,714	0.08	1,005	0.03
12 Non-ferrous metals	18,173	16,022	0.54	1,167	0.23	984	0.03
13 Fabricated metal prod.	15,883	3,608	0.46	12,141	0.36	134	0.02
14 Grain and flour	14,416	13,720	0.32	696	0.45	—	—
15 Clay	20,249	11,972	0.52	8,028	0.40	249	0.02
16 Machinery	5,519	1,154	0.21	3,432	0.36	933	0.01
17 Synthetic rubber	13,546	13,546	0.57	—	—	—	—
18 Fats	2,020	—	—	2,020	0.48	—	—
19 Waterway improvement	1,456	—	—	1,456	0.29	—	—
20 Paper & paper products	3,296	3,296	0.40	—	—	—	—
21 Other commodities	141,781	122,358	0.22	19,347	0.16	76	0.01
Total	$ 5,583,535	$ 3,663,486		$ 1,396,692		$ 526,997	

TABLE 9:
ALLOCATION OF $0.10 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$ 2,037,813	$ 853,497	$0.10	$ 627,415	$0.11	$ 556,901	$0.02
2 Oil and gasoline	1,982,571	1,890,326	0.38	74,007	0.26	18,168	0.03
3 Sand, gravel and rock	81,358	29,791	0.06	444	0.02	51,123	0.02
4 Iron and steel	971,804	274,176	0.51	696,009	0.44	1,619	0.02
5 Chemicals	666,923	504,557	0.55	157,476	0.27	4,890	0.01
6 Non-ferrous ores	38,971	38,917	0.54	54	0.11	—	—
7 Other minerals	548,088	441,179	0.59	86,996	0.52	19,913	0.03
8 Iron ores	222,796	222,224	0.56	572	0.60	—	—
9 Coke	39,813	3,062	0.57	34,846	0.42	1,905	0.02
10 Alcohols	90,003	89,530	0.54	473	0.33	—	—
11 Cement	8,402	4	0.06	7,142	0.10	1,256	0.04
12 Non-ferrous metals	22,718	20,028	0.67	1,459	0.29	1,231	0.04
13 Fabricated metal prod.	19,854	4,510	0.57	15,176	0.45	168	0.02
14 Grain and flour	18,019	17,150	0.40	869	0.56	—	—
15 Clay	25,313	14,965	0.65	10,036	0.50	312	0.02
16 Machinery	6,899	1,442	0.26	4,290	0.45	1,167	0.02
17 Synthetic rubber	16,933	16,933	0.71	—	—	—	—
18 Fats	2,525	—	—	2,525	0.60	—	—
19 Waterway improvement	1,820	—	—	1,820	0.36	—	—
20 Paper & paper products	4,120	4,120	0.50	—	—	—	—
21 Other commodities	177,226	152,948	0.27	24,184	0.20	94	0.01
Total	$ 6,983,969	$ 4,579,358		$ 1,745,864		$ 658,747	

TABLE 10:
ALLOCATION OF $0.25 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$ 5,094,530	$ 2,133,741	$0.25	$ 1,568,537	$0.28	$ 1,392,252	$0.04
2 Oil and gasoline	4,956,428	4,725,815	0.95	185,193	0.65	45,420	0.06
3 Sand, gravel and rock	203,395	74,478	0.15	1,109	0.05	127,808	0.04
4 Iron and steel	2,429,511	685,440	1.27	1,740,024	1.10	4,047	0.05
5 Chemicals	1,667,306	1,261,393	1.39	393,689	0.69	12,224	0.03
6 Non-ferrous ores	97,427	97,292	1.34	134	0.26	--	--
7 Other minerals	1,370,220	1,102,947	1.46	217,490	1.29	49,783	0.08
8 Iron ores	556,991	555,561	1.39	1,430	1.51	--	--
9 Coke	99,534	7,656	1.41	87,116	1.05	4,762	0.04
10 Alcohols	225,006	223,824	1.36	1,182	0.83	--	--
11 Cement	21,006	10	0.14	17,855	0.24	3,141	0.09
12 Non-ferrous metals	56,792	50,069	1.68	3,647	0.73	3,076	0.09
13 Fabricated metal prod.	49,635	11,274	1.43	37,941	1.11	420	0.06
14 Grain and flour	45,049	42,875	1.00	2,174	1.40	--	--
15 Clay	63,282	37,413	1.64	25,089	1.24	780	0.06
16 Machinery	17,248	3,605	0.65	10,726	1.13	2,917	0.05
17 Synthetic rubber	42,332	42,332	1.78	--	--	--	--
18 Fats	6,314	--	--	6,314	1.49	--	--
19 Waterway improvement	4,550	--	--	4,550	0.89	--	--
20 Paper & paper products	10,299	10,299	1.24	--	--	--	--
21 Other commodities	443,066	382,370	0.68	60,460	0.51	236	0.03
Total	$17,459,922	$11,448,394		$ 4,364,661		$ 1,646,867	

TABLE 11:
ALLOCATION OF $0.42 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$ 8,558,810	$ 3,584,686	$0.43	$ 2,635,141	$0.46	$ 2,338,983	$0.07
2 Oil and gasoline	8,326,800	7,939,370	1.59	311,125	1.09	76,305	0.11
3 Sand, gravel and rock	341,704	125,123	0.25	1,863	0.08	214,718	0.06
4 Iron and steel	4,081,578	1,151,539	2.13	2,923,240	1.84	6,799	0.08
5 Chemicals	2,801,075	2,119,140	2.33	661,398	1.15	20,537	0.05
6 Non-ferrous ores	163,677	163,450	2.26	227	0.45	--	--
7 Other minerals	2,301,968	1,852,950	2.46	365,383	2.17	83,635	0.14
8 Iron ores	935,745	933,342	2.33	2,403	2.53	--	--
9 Coke	167,217	12,862	2.38	146,354	1.76	8,001	0.07
10 Alcohols	378,010	376,024	2.29	1,986	1.40	--	--
11 Cement	35,291	17	0.24	29,997	0.41	5,277	0.15
12 Non-ferrous metals	95,412	84,116	2.82	6,128	1.22	5,168	0.16
13 Fabricated metal prod.	83,388	18,941	2.40	63,741	1.87	706	0.10
14 Grain and flour	75,682	72,030	1.68	3,652	2.35	--	--
15 Clay	106,314	62,854	2.75	42,150	2.09	1,310	0.10
16 Machinery	28,977	6,056	1.08	18,020	1.91	4,901	0.08
17 Synthetic rubber	71,117	71,117	3.00	--	--	--	--
18 Fats	10,607	--	--	10,607	2.51	--	--
19 Waterway improvement	7,644	--	--	7,644	1.50	--	--
20 Paper & paper products	17,302	17,302	2.08	--	--	--	--
21 Other commodities	744,351	642,381	1.14	101,573	0.86	397	0.05
Total	$29,332,667	$19,233,301		$ 7,332,630		$ 2,766,736	

TABLE 12:
ALLOCATION OF $0.68 PER GALLON TAX, 1976

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
1 Coal	$13,857,120	$ 5,803,776	$0.69	$ 4,266,419	$0.75	$ 3,786,925	$0.12
2 Oil and gasoline	13,481,490	12,854,222	2.58	503,726	1.76	123,542	0.17
3 Sand, gravel and rock	553,237	202,581	0.41	3,017	0.13	347,639	0.10
4 Iron and steel	6,608,267	1,864,396	3.45	4,732,864	2.98	11,007	0.13
5 Chemicals	4,535,074	3,430,989	3.77	1,070,835	1.87	33,250	0.09
6 Non-ferrous ores	265,001	264,634	3.65	367	0.72	--	--
7 Other minerals	3,726,995	3,000,014	3.98	591,572	3.51	135,409	0.22
8 Iron ores	1,515,016	1,511,125	3.78	3,891	4.10	--	--
9 Coke	270,733	20,824	3.85	236,955	2.85	12,954	0.12
10 Alcohols	612,016	608,801	3.70	3,215	2.26	--	--
11 Cement	57,137	27	0.38	48,567	0.66	8,543	0.25
12 Non-ferrous metals	154,478	136,189	4.56	9,921	1.98	8,368	0.26
13 Fabricated metal prod.	135,009	30,666	3.89	103,200	3.03	1,143	0.16
14 Grain and flour	122,531	116,619	2.73	5,912	3.80	--	--
15 Clay	172,125	101,763	4.45	68,242	3.38	2,120	0.17
16 Machinery	46,914	9,805	1.75	29,175	3.09	7,934	0.13
17 Synthetic rubber	115,142	115,142	4.85	--	--	--	--
18 Fats	17,173	--	--	17,173	4.06	--	--
19 Waterway improvement	12,375	--	--	12,375	2.43	--	--
20 Paper & paper products	28,013	28,013	3.37	--	--	--	--
21 Other commodities	1,205,139	1,040,045	1.85	164,452	1.39	642	0.08
Total	$47,490,987	$31,139,631		$11,871,878		$ 4,479,478	

TABLE 13:
ALLOCATION OF $0.10 PER GALLON TAX, 1985 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$ 3,205,521	$ 1,280,917	$0.10	$ 1,158,895	$0.11	$ 765,709	$0.02
Petroleum fuels	2,052,462	2,011,648	0.33	17,886	0.11	22,928	0.03
Aggregates	158,816	48,642	0.04	226	0.02	109,948	0.02
Chemicals	1,201,598	895,359	0.55	296,470	0.31	9,769	0.01
Ores and minerals	1,396,042	1,075,025	0.62	320,411	0.45	606	0.01
Iron ore and steel	1,894,409	803,968	0.47	1,088,257	0.42	2,184	0.02
All other	1,035,858	880,181	0.46	149,892	0.29	5,785	0.03
Total	$10,944,706	$ 5,995,740		$ 3,032,037		$ 916,930	

TABLE 14:
ALLOCATION OF $0.25 PER GALLON TAX, 1985 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$ 8,013,803	$ 3,202,292	$0.26	$ 2,897,238	$0.27	$ 1,914.273	$0.04
Petroleum fuels	5,131,156	5,029,121	0.84	44,715	0.27	57,320	0.07
Aggregates	397,042	121,606	0.10	566	0.05	274,870	0.04
Chemicals	3,003,992	2,238,397	1.36	741,175	0.78	24,420	0.03
Ores and minerals	3,490,108	2,687,564	1.54	801,028	1.13	1,516	0.01
Iron ore and steel	4,736,024	2,009,921	1.17	2,720,642	1.06	5,461	0.05
All other	2,589,644	2,200,452	1.15	374,729	0.73	14,463	0.07
Total	$27,361,769	$17,489,353		$ 7,580,093		$ 2,292,323	

TABLE 15:
ALLOCATION OF $0.42 PER GALLON TAX, 1985 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$13,463,190	$ 5,379,850	$0.43	$ 4,867,361	$0.45	$ 3,215,979	$0.07
Petroleum fuels	6,620,342	8,448,923	1.40	75,122	0.45	96,297	0.12
Aggregates	667,029	204,297	0.16	950	0.08	461,782	0.08
Chemicals	5,046,708	3,760,508	2.29	1,245,173	1.30	41,027	0.06
Ores and minerals	5,863,380	4,515,107	2.59	1,345,727	1.90	2,546	0.02
Iron ore and steel	7,956,520	3,376,667	1.96	4,570,678	1.78	9,175	0.08
All other	4,350,602	3,696,759	1.93	629,545	1.23	24,298	0.12
Total	$45,967,771	$29,382,111		$12,734,556		$ 3,851,104	

TABLE 16:
ALLOCATION OF $0.68 PER GALLON TAX, 1985 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$21,797,544	$ 8,710,233	$0.70	$ 7,880,488	$0.73	$ 5,206,823	$0.[illegible]
Petroleum fuels	20,394,024	20,116,488	2.27	121,626	0.72	155,910	0.[illegible]
Aggregates	1,079,952	330,767	0.27	1,538	0.13	747,647	0.12
Chemicals	8,170,863	6,088,443	3.71	2,015,996	2.11	66,424	0.09
Ores and minerals	9,493,091	7,310,173	4.19	2,178,796	3.07	4,122	0.04
Iron ore and steel	12,881,983	5,466,984	3.17	7,400,145	2.88	14,854	0.13
All other	7,043,831	5,985,229	3.12	1,019,263	1.99	39,339	0.19
Total	$80,861,288	$54,008,317		$20,617,852		$ 6,235,119	

TABLE 17:
ALLOCATION OF $0.10 PER GALLON TAX, 1990 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$ 4,291,528	$ 1,722,549	$0.11	$ 1,622,100	$0.11	$ 946,879	$0.02
Petroleum fuels	2,583,869	2,536,583	0.33	19,888	0.10	27,396	0.03
Aggregates	189,731	58,563	0.03	132	0.02	131,036	0.02
Chemicals	1,467,290	1,085,792	0.54	368,607	0.29	12,891	0.01
Ores and minerals	1,896,989	1,385,309	0.62	510,451	0.41	1,229	0.01
Iron ore and steel	2,056,093	850,062	0.46	1,203,922	0.41	2,109	0.02
All other	1,267,212	1,099,097	0.45	161,163	0.26	6,952	0.03
Total	$13,752,712	$ 8,737,956		$ 3,886,264		$ 1,128,495	

TABLE 18:
ALLOCATION OF $0.25 PER GALLON TAX, 1990 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$10,728,821	$ 4,306,373	$0.27	$ 4,055,249	$0.26	$ 2,367,199	$0.04
Petroleum fuels	6,459,672	6,341,457	0.83	49,719	0.25	68,496	0.07
Aggregates	474,329	146,409	0.07	330	0.05	327,590	0.04
Chemicals	3,668,228	2,714,482	1.35	921,517	0.74	32,229	0.03
Ores and minerals	4,742,474	3,463,273	1.54	1,276,128	1.03	3,073	0.01
Iron ore and steel	5,140,231	2,125,154	1.15	3,009,805	1.03	5,272	0.05
All other	3,168,032	2,747,743	1.12	402,908	0.65	17,381	0.07
Total	$34,381,787	$21,844,891		$ 9,715,656		$ 2,821,240	

TABLE 19:
ALLOCATION OF $0.42 PER GALLON TAX, 1990 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$18,024,419	$ 7,234,707	$0.45	$ 6,812,818	$0.44	$ 3,976,894	$0.07
Petroleum fuels	10,852,251	10,653,649	1.40	83,529	0.43	115,073	0.12
Aggregates	796,872	245,967	0.13	554	0.08	550,351	0.07
Chemicals	6,161,268	4,560,329	2.28	1,548,148	1.24	52,791	0.06
Ores and minerals	7,967,355	5,818,298	2.59	2,143,895	1.72	5,162	0.02
Iron ore and steel	8,635,588	3,570,259	1.92	5,056,472	1.74	8,857	0.08
All other	5,322,292	4,616,208	1.89	676,885	1.09	29,199	0.12
Total	$57,760,045	$36,699,417		$16,322,301		$ 4,738,327	

TABLE 20:
ALLOCATION OF $0.68 PER GALLON TAX, 1990 ESTIMATED TONNAGES

Commodity	Total Allocation	Into District		Out of District		Within District	
		Total	Per Ton	Total	Per Ton	Total	Per Ton
Coal and coke	$29,182,392	$11,713,334	$0.73	$11,030,278	$0.72	$ 6,438,780	$0.12
Petroleum fuels	17,570,310	17,248,765	2.26	135,237	0.69	186,308	0.19
Aggregates	1,290,173	398,232	0.20	897	0.13	891,044	0.12
Chemicals	9,977,578	7,383,390	3.68	2,506,525	2.00	87,663	0.09
Ores and minerals	12,899,527	9,420,101	4.19	3,471,068	2.79	8,358	0.04
Iron ore and steel	13,981,428	5,780,419	3.11	8,186,669	2.81	14,340	0.13
All other	8,617,044	7,473,860	3.06	1,095,909	1.76	47,275	0.19
Total	$93,518,452	$59,418,101		$26,426,583		$ 7,673,768	

3.0 FUTURE STUDY

Analysis of overall economic impact can proceed in two basic directions from this point:

- Estimation of transport mode shifts; and
- Changes in levels of production due to increases in input costs or reduction in market areas for waterway-using regions.

Each of these examinations should be region-specific -- that is, actual regional information should be the basis for analysis.

3.1 Transport Mode Shifts

Possible changes in transport mode would be the result of water transport rates approaching land rates in competitive situations. Studying such competition requires knowledge of water and land rates and an understanding of when land and water compete. CONSAD currently has the applicable rate files for the Pittsburgh region, as well as the entire Ohio River Basin. Judging land and water competitiveness will call for knowledge of the region and its transportation system, such as CONSAD has developed through its many projects in the Basin.

3.2 Changes in Production Levels

The impact of increased transportation costs on a region's ability to produce goods and services for local consumption and for sale in the rest of the nation and the rest of the world may offer the most serious challenge to the affected regions. The next step in estimating these impacts will be to consider the changes in input costs and selling price due to increased transportation charges. For example, steel uses coal, iron ores, coke, and other products that will have increased transport costs due to the tax. Allocating these increases per ton of output will form the basis for comparing local costs -- after the tax -- with costs in other regions. Since the tax is inherently regionally differential, due to amounts carried by waterway and length of haul, other regions will be affected to a different degree, and it should be possible to estimate potential production shifts.

Similarly, increased transport costs may reduce market areas for local production -- shifting production points that can produce at a lower cost, given the waterways user tax.

This analysis requires expertise in multi-regional analysis of economic activity, as well as an understanding for the transportation network involved. CONSAD has developed a multi-regional impact model that considers both intraregional and interregional flows of goods and services for 14 regions in the northeast and midwest. Pittsburgh is the center of one of these regions. The rest of the Ohio River Basin is covered by four regions, centered on mid-Ohio/West Virginia, Cincinnati, Louisville, and Cairo-St. Louis.

A multi-regional model can serve as the basis for estimating not only the direct and indirect effects for each region, and it can also aid in estimating the feedback effects between regions, for example, the impact of changes in the Pittsburgh region on other Ohio River Basin regions.

Future work will progress on an orderly basis, both for Pittsburgh and for other areas as the resources become available.

4.0 METHODOLOGY

In order to assess the impacts of various levels of user tax, it is first necessary to describe the nature of current river traffic. Data developed by the Waterborne Commerce Statistical Center of the U. S. Army Corps of Engineers was used for this purpose. The data represented all tonnage movements in the Pittsburgh District by commodity in 1976. This was the latest year for which complete data were available. The traffic movements were first aggregated into twenty-one commodity groupings and then the total tonnage moving into and out of the Pittsburgh District was summed for each of the three rivers. In addition, the traffic originating and terminating within the district was also totalled.

Total tonnage gives us a picture of what is moved by water in the district. However, in order to assess the impact of proposed user charges, we must develop estimates of the ton-miles of cargo moved. In order to do this, estimates of actual distance travelled were developed with the assistance of a mileage table for port equivalents* on the inland waterway system. Each port equivalent was assigned a node location river-mile which represented the tonnage weighted average center of traffic. Since the origin-destination information in the Corps of Engineers data was given in port equivalent numbers, it was a simple matter to determine the actual movement mileage.

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*A port equivalent is a stretch of river possessing a composite of port characteristics.

The movement mileage multiplied by shipment tonnage would give the ton-miles for the commodity movement. The total ton-miles were then aggregated by the twenty-one commodity groupings and then summed according to whether the movement was made into, out of, or within the Pittsburgh District. These values were then used to determine the impact of the tax on fuel consumption.

By using an estimate of 460 Btu's per ton-mile and an estimate of 143,000 Btu's per gallon of No. 2 oil, we arrive at 310.87 ton-miles per gallon of fuel. This estimate includes allowances for the fuel consumed in back-hauling empty barges. By dividing the total ton-miles for each commodity group by 310.87, an estimate can be made of the number of gallons of fuel consumed. Then by multiplying this by an appropriate level of tax per gallon, the impacts of the user's fee can be assessed both on a total and per-ton basis.

This same procedure was also used to determine the user's fee impact at 1985 and 1990 projected traffic levels. The projected traffic levels were developed by CONSAD as part of a study done for the U. S. Army Corps of Engineers.*

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*CONSAD Research Corporation, Projecting the Demand for Ohio River Basin Waterway Traffic Using Correlation and Regression, U. S. Corp of Engineers, Ohio River Division, Cincinnati, Ohio, January 1979.

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Statement of

National Council of Farmer Cooperatives

Hearings by the

Subcommittee on Water Resources

Senate Committee on Environment
and Public Works

SUBJECT: Inland Waterway Development

June 16, 1981

Donald A. Frederick
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"AMERICA'S FARMER OWNED BUSINESSES"

Statement of

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The National Council of Farmer Cooperatives is a nationwide association of cooperative businesses which are owned and controlled by farmers. Its membership includes 122 regional marketing and farm supply cooperatives, the 37 banks of the cooperative Farm Credit System, and 31 state councils of farmer cooperatives. National Council members handle practically every type of agricultural commodity produced in the U.S., market these commodities domestically and around the world, and furnish production supplies and credit to their farmer members and patrons. Two-thirds of U.S. farmers are affiliated with one or more cooperatives. The National Council represents about 90 percent of the more than 6,400 farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

An efficient and affordable national transportation system is vital to modern agriculture. It must be ready to serve a variety of origins and destinations for various commodities and in varying amounts. It must be able to meet our ever-increasing demand for food, both here and abroad.

The barge industry is a vital component of the transport system serving agriculture. Massive amounts of grains, soybeans and fertilizers move by barge. The latest U.S. Department of Agriculture study in this area shows that most of this traffic has been developed in the last two decades. From 1960 to 1975 domestic barge shipments of corn grew from 4.7 million tons to 20.5 million tons, soybeans grew from 2.3 million tons to 9.3 million tons, and wheat from 5.1 million tons to 8.6 million tons. From 1966 to 1974 barge shipments of phosphate rock doubled from 4.1 million tons to 8.5 million tons, and nitrogenous chemical shipments increased almost nine-fold, from 227,000 tons to nearly 2 million tons. U.S. Department of Agriculture, Economic Research Service, Water Carriers and Inland Waterways in Agricultural Transportation, Agricultural Economic Report No. 379 (August 1977).

The majority of all agricultural commodities moving by barge are shipped on the Mississippi River and its tributaries; primarily the Illinois, Ohio and Missouri Rivers. As major fertilizer production occurs in the Southeast, and crops are grown the length of the river, natural backhauls occur with fertilizer moving upstream and grain bound for export moving downstream.

The federal government financed the cost of construction, maintenance, operation and rehabilitation of U.S. Waterways from 1824 until last October when a modest user fee was first placed on barge companies and thus indirectly on farmers and other shippers. Now a strong movement is underway to make a quantum jump to total cost recovery.

The main point farmer cooperatives want to make today is that we had better look before we leap. These proposals are a radical departure from a system that has served the nation well for over 150 years. What may be good economic theory when one's universe is the narrow ribbons of the inland waterways could be disastrous when one scans the real world of agricultural production and distribution. There are several key questions which must be answered before we can assess the impact steep user fees will have on agriculture. We must find those answers before we can safely pursue a fair and defensible user fee schedule.

1. Will the fees disrupt agricultural export trade? Our farm exports are the backbone of our efforts to balance our international trading accounts. The world grain market is highly competitive with numerous suppliers vying to meet importers' needs. If user fees result in our products being priced out of a significant part of that market, then the cost to this country will far exceed the fiscal gain the government will realize from this tax.

2. Will user fees depress farm income and threaten the solvency of family farms? That portion of the user fee which cannot be passed on to purchasers (in this case probably most of it) will be forced back onto the producers. In lean years this negative farm price impact could be large enough to contribute to the bankruptcy of smaller farms, particularly those farms of young farmers and others with marginal capital cushions. I am sure that some people would say that if they can't afford to transport their products then they shouldn't be in the business of growing them. I think it would be a sad day indeed if, even indirectly, this became the official policy of our government.

3. What will be the impact of user fees on barge-rail competition? For decades agricultural shippers were able to rely on the Interstate Commerce Commission to protect them from unreasonable rail rates. But enactment of the 4-R Act of 1976 and the Staggers Rail Act of 1980 has repealed that protection. Now competition is the principal rate and service regulator. And for long-haul movements of bulk commodities, the only competitor to the rail industry is barge transportation.

If river rates are forced up by user fees, the rail industry can respond in three ways: (1) increase rail rates to a level equal to water rates and enjoy windfall profits at farmers' expense, (2) undercut barge rates to eliminate competition, or (3) both of the above. Farmer cooperatives are concerned that all of these scenarios may translate into higher rates for less service.

4. Will user fees force the closing of some waterways to commercial traffic and, if they do, what will be the impact? Some river systems need less ongoing work than other systems; some systems are more mature and therefore have more usage than others. There is a possibility that user charges will fall more heavily on the more costly and less developed systems. If the costs get too high, the barges can simply float off to rivers with less onerous taxes. Farms can't be relocated. The departure of the barges would create additional rail monopoly situations, with the inevitable consequences of higher rates and poorer service for those farmers.

5. How can we be sure that our money will be spent on the projects we need? As long as the general public finances waterway improvements, elected public officials are clearly the proper persons to determine how these projects proceeded. If users are to pay, then we should have a strong voice in determining how our money is spent. There are two inland waterway projects which are essential to efficient movement of agricultural commodities. First, we need the swiftest possible conclusion of the new Lock and Dam 26 facility on the Mississippi River, with the inclusion of the as yet unauthorized second lock mechanism in that facility. Second, the Bonneville Dam on the Columbia River must be rebuilt to accommodate the rapidly growing demand for westward export grain flows. It would be the grossest injustice to subject farmers to steep waterway user fees and not authorize these badly needed waterway improvements.

6. How can we be sure that costs will be properly allocated amongst all users of the inland waterways? There seems to be a major thrust to force as much as possible of the cost of maintaining and improving the inland waterways onto the backs of commercial navigation. A fair and equitable fee structure would require an allocation of cost, according to benefit, among all users including recreational beneficiaries, commercial fishermen, and municipal water systems. Costs attributable to environmental protection as well as military preparedness should be borne by the general public. The amount of adverse impact on agriculture will depend significantly on how this allocation program will be carried out. Development of the formulas should be a precedent to adoption of substantial user fees, not an afterthought.

7. What types of charges would be the least disruptive for agriculture? Numerous recovery schemes have been advanced. Some proposals advocate a uniform fee, others segmented charges, and still others suggest combining the two. Various recovery methods suggested include a fuel tax, segment charges, lockage charges, ton tax, ton-mile tax, and congestion charges. Some might be terribly disruptive of agricultural moves, others not so injurious. We simply need time to study and postulate impacts before instituting any such plan.

Thank you for allowing me to testify today. The National Council of Farmer Cooperatives stands ready to work with you on an ongoing basis to develop the best inland waterway system possible.

Respectfully,

Donald A Frederick

Donald A. Frederick
Assistant General Counsel

SUPPLEMENTAL STATEMENT OF HARRY N. COOK PRESIDENT OF THE NATIONAL WATERWAYS CONFERENCE, INC. SUBMITTED TO THE SUBCOMMITTEE ON WATER RESOURCES, ENVIRONMENT AND PUBLIC WORKS COMMITTEE, U.S. SENATE WASHINGTON, D. C.

June 30, 1981

A central argument advanced in favor of user charges to recover Army Corps of Engineers' expenditures on the Nation's waterways is that such charges would provide a "market test" to determine the true demand for, and therefore the economic feasibility of, navigation projects. Application of this theory presumably means that waterways whose costs cannot be fully recovered from commercial users would not be built. Further, existing segments might be abandoned if charges extracted from current traffic on those segments were not sufficient to cover operation and maintenance costs.

The "market test" idea was listed as one of the two basic concepts underlying the Reagan Administration's proposed port and waterway user charge legislation (S. 809 and S. 810) by Mr. Richard F. Walsh of the Department of Transportation, who appeared June 16, 1981, before the Water Resources Subcommittee of the Senate Committee on Environment and Public Works.

As Mr. Walsh put it:

> "The other basic concept relates to the effective functioning of the free marketplace as the mechanism which should decide how much and which traffic should go by each mode. When not distorted by subsidy or arbitrary regulation, the marketplace lets shippers decide how much of which commodity they will ship by which mode, with decisions based solely on each mode's respective cost and service characteristics. In order that the market mechanism be a truly efficient decisionmaking device, the transportation rates that face the shipper as he makes his decisions must accurately reflect the costs of each mode. To the extent that any portion of a carrier's costs are picked up by the Federal government, the rates that he quotes will understate the true cost of moving goods by that mode.
>
> "Whenever part of the true costs of any mode becomes masked by subsidy in this way, inefficiencies begin to occur. Real efficiencies in other modes are lost as traffic shifted by the artifically low rates of the subsidized mode actually moves at greater total costs."

The notion that full cost-recovery user charges for waterways would suddenly produce an unfettered "private market" freight transportation system in which rates reflect costs is, unfortunately, faulted in several ways.

First, the transportation infrastructure — highways, rail lines, pipelines, and waterways — is not instantly mobile. If a particular transportation segment, regardless of mode, fails the "market test" — i.e., its rates are more than the shipper can afford — an alternate means of moving the goods at lower rates cannot be assumed to always be present.

Second, the total costs of moving goods by overland modes are not always reflected in the freight rates charged the shipper. While Mr. Walsh conceded as much in his discussion of the Administration's desire to eventually phase out some capital and operating subsidies to the railroads, a detailed examination of Federal subsidy-effect programs benefiting the various modes was lacking.

On the railroad side, for instance, there are currently large-scale Federal subsidies to railroad freight transportation. Only if user charges were imposed on rail traffic to recover these subsidies would this gross distortion be removed.

Third, while the "market test" (as user charge proponents advocate that it be applied to waterways) would necessitate very local, project-by-project or segment-by-segment and seasonally fluctuating waterway rates, there is no parallel effort underway, for example, to see that each rail shipment pays its own way. Railroads routinely earn high profits on hauls on which they lack competition while taking a lesser profit on rates for moving water-competitive commodities. The trend toward deregulation would suggest that such pricing flexibility for railroads would be permitted to increase at the same time that waterway carriers — faced with segment-specific user charges — would be placed in a straightjacket as to rates. Each water carrier's rates would be influenced each year by Corps of Engineers' costs on the waterway(s) used by the carrier.

Thus, segment-specific or project-specific waterway user charges aimed at full Federal cost recovery would fail to accomplish the primary goal espoused by proponents of the "market test" doctrine. Such charges offer no assurance of a more efficient transportation system in which shipper choices reflect the true costs of the transportation services employed.

The National Waterways Conference, Inc., has published a detailed examination of the "market test" argument as applied to waterway user charges. We request that this report, entitled "The Failure of the Market Test Doctrine: The Merchandising of the Public Interest in U.S. Harbors and Waterways," be printed in the record of these hearings on waterway user charges and related issues.

THE FAILURE OF THE MARKET TEST DOCTRINE:

MERCHANDISING OF THE PUBLIC INTEREST IN U.S. HARBORS AND WATERWAYS

Of the various contentions advanced for cost-recovery user charges on the U.S. inland waterways, the belief that such charges would constitute a market test for proposed waterway projects is among the least valid. The ostensible logic underlying this belief may be summarized as follows:

In the absence of cost-recovery user charges, it cannot be known whether a particular waterway project is worth its cost or not. But, if the Government were to charge the users the full cost of building and operating the project, this would constitute a market test of economic feasibility. If the users wouldn't pay the cost, it would then be clear that the project was not feasible, and its operation could be terminated. If they would pay, operation would be continued. The user charge would thus constitute a market test to assure that every waterway project in the country still maintained for commercial traffic was worth its cost.

A Market Test Charge Against Non-Users

The fallacy of the market test concept is betrayed by the structure of the charges which its advocates propose. To test a particular project at one location, they advocate charges against all sectors of shallow-draft navigation, most of which will make no use of and thus never constitute a "market" for the project supposedly being tested. For example, the Domenici Amendment No. 1460 to H.R. 8309 in the 95th Congress authorized the replacement of Locks and Dam 26 on the Mississippi River and applied user charges as a market test. The amendment proposed impositions against carriers on all shallow-draft waterways and at levels having no significant relationship to the costs of L&D 26. The Domenici options included a nationwide waterway fuel tax, vessel license fees, ton-mile charges, and charges on vessel capacity at the same level all over the country.

Just how user charges on the Gulf Intracoastal Waterway, the Columbia, the Monongahela and numerous other rivers far from the Mississippi were going to market test the feasibility of L&D 26 was not explained. Charges at a uniform rate every place can't possibly test the market for a project at some one location. By the same logic, one might propose to test the market for a project to supply water to Reading, Pennsylvania, by charging water users in Albuquerque, New Mexico, and elsewhere on the supposition that water users every place somehow constitute the market for the use of water in Reading.

With respect to any single project such as L&D 26, most water carriage in the country makes no use of it. The project's market consists of its users and of no one else. To test the market for a waterway project, therefore, the cost of that project, both for construction and operation, would have to be charged to the users of that project alone. By way of analogy, if a commercial firm wishes to test the market for a proposed new product to be added to its line, it would surely not do so by raising the price of all its products, but would confine the test to the product being tested.

The Broad Brush of the Segment Charge

A so-called "segment charge" would move in this direction. A segment charge would levy a rate on each segment of the U.S. waterway system at a level to recover the Federal costs of that segment. For example, in 1976, a segment charge to recover Federal costs on the Allegheny River would have been 20.7 mills per ton-mile of freight on that waterway. On the Ohio River, it would have been 2.6 mills, about 1/8 as much. On the erroneous supposition that the traffic would not shrink under this blow, each of these rivers would have recovered its own costs and stood the market test.

But, even this would be invalid, especially on a river such as the Ohio. The Ohio is not a project. It is a whole series of projects. In 1976, all the construction which supposedly would have been "tested" was going on downstream between Louisville and the Mississippi River. This means that coal moving in the upstream reaches between Huntington and Pittsburgh, along with a score of other movements confined to the upper river, would have been treated as a "market" for the lower river projects which they never use.

Charges at a uniform rate every place can't possibly test the market for a project at some one location. To test the market for a waterway project, therefore, the cost of the project, both for construction and operation, would have to be charged to the users of that project alone.

In sum, the market test idea means that user charges would have to be imposed individually and exclusively on a project-by-project basis. In some cases, a river segment, such as the Allegheny, could be treated as a single project. But, each project on the Ohio River would have to be tested individually if the "test" were to be informative. The same would be true on the Upper Mississippi, the Illinois, the Gulf Intracoastal Waterway, and on numerous other waterway segments. On an extensive waterway, no single project or group of projects can be "tested" by imposing a user charge at a uniform rate on the entire segment.

Cost-Recovery User Charges as a Form of Subsidization

The advocates of waterway user charges readily concede the impracticability of charges exclusively on a project-by-project basis. In doing so, they are conceding the impracticability of a true market test. For example, Eric W. Beshers, a senior transportation economist of the U.S. Department of Transportation and a cost-recovery user charge advocate, offers this comment:

> "We will never have a pure segment charge system; we may have something in between, which will inevitably carry with it some element of cross-subsidy between one hunk of the river and another."[1]

One of the most frequently repeated statements favoring cost-recovery waterway user charges is that waterway projects are allegedly subsidized. Yet, as Mr. Beshers concedes, under cost-recovery charges this so-called subsidy would continue. It is argued that, in the absence of cost-recovery charges, it is unfair to the taxpayer that he should bear the burden of projects which he doesn't use. Yet, Mr. Beshers' statement clearly contemplates that under any workable cost-recovery user charge which might be imposed, taxpayers would still be financing waterways which they don't use. The taxpayers in the latter instance would be the users of other waterways.

If there were any injustice in taxpayers financing waterway projects, this alleged injustice would be just as flagrant when applied to non-user waterway commerce as when applied to any other category of non-user taxpayers. One alleged injustice would merely have been substituted for another.

The Non-Market Test of Highway Use Taxes

Advocates of the market test cite highway use taxes to demonstrate their

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[1] Remarks at 58th Annual Meeting of the Transportation Research Board, Washington, D.C., January 17, 1979.

Apart from the miniscule portion consisting of toll roads, there isn't a roadway project, or even a roadway segment, in the country which is market tested to see if the use taxes it generates pay its own cost.

concept of testing. These citations reflect the confusion of modal users with project users. Harold H. Brayman, senior staff member of the Subcommittee on Water Resources of the U.S. Senate Committee on Environment and Public Works, speaks as follows in support of the market test:

"The road program links the costs of charges to the fuel tax ***."[1]

Apart from the minuscule portion consisting of toll roads, there isn't a roadway project, or even a roadway segment, in the country which is market tested to see if the use taxes it generates pay its own cost. Such a test would call for a toll gate every few miles — in the cities every few blocks. The U.S. road and highway system is a massive complex of cross-subsidization. Some roadway segments generate revenues far in excess of their costs. Others fall pitifully short. Even taking the system as a whole, much is subsidized by the general taxpayer. In 1979, government payments for streets and highways from general funds amounted to $10.0 billion, of which $2.3 billion was Federal.[2] Highway financing represents the very antithesis of a market test.

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[1] Statement at the 58th Annual Meeting of the Transportation Research Board, Washington, D.C., January 17, 1979.

[2] Federal expenditures on the inland waterways in 1979 amounted to only $534 million, 1/18 as much as total general fund outlays on roadways by all levels of government.

The Futility of the Market Test Objective

Let us examine, then, the merits of a true waterway market test — that is, of a cost-recovery user charge formula exclusively on a project-by-project basis. For purposes of clarification, we shall make the unrealistic assumption that such a formula could be implemented as a practical undertaking. An imposition consisting only of lockage fees and sub-segment tolls is illustrative. The only conceivable purpose of such a test would be to learn something useful in response to which some practical action might be taken. Quite clearly, however, the only information to be derived from such a test would come much too late and so would prove virtually useless.

Suppose, then, that after 15 or 20 years of operation it became evident that the traffic could not pay the charges. The project would have failed the test. What practical action, then, would be taken? Almost surely none.

A Lock and Dam Project as an Example

Consider, for example, the provision of an additional lock on a canalized river. Once the Congress authorizes and begins to fund the project, at least seven years will pass before the lock is completed. Assuming a cost-recovery user charge scheme were in effect for this particular project, at the time of its completion, lockage tolls would start to recover the Federal investment plus yearly charges for operation and maintenance. Many more years would pass before it became evident that the traffic either would or would not be sufficient under the toll imposition to reimburse the Government.

Suppose that, after 15 or 20 years of operation, it became evident that the traffic could not pay the charges. The project would have failed the test. What practical action, then, would be taken? Almost surely none. The costs of construction would have been irretrievably sunk. Terminating the operation of the project would recover virtually nothing of these long-past outlays. Operation would thus continue as though no test had been applied.

The Example of the St. Lawrence Seaway

This is substantially what happened with respect to the St. Lawrence Seaway. Construction was initiated under exactly the same cost-recovery formula as a market test. Tolls were set at levels to reimburse the Government for capital charges plus operation and maintenance. Traffic did not develop as rapidly as expected. Toll collections fell short of the cost-recovery target. The Seaway failed what was essentially a market test. The only thing learned from this was that, if this were 1954 again, Congress possibly would not authorize and fund the Seaway. This is a useless lesson. Far from closing the Seaway in response to the test, steps are now being taken towards enlarging its capacity by lengthening the navigation season.

The Irrationality of Project Abandonment

Projects which failed to reimburse the Government fully — that is, which failed the market test — would not ordinarily be closed to traffic for a very good reason. Inasmuch as closure would not recover anything of the irretrievably sunk costs of construction, the only economically rational objective of closure would be the saving of the continuing expense of operation and maintenance. However, in most instances, the tolls would more than recover these annual costs by a comfortable margin. This, indeed, was the Seaway experience. It would obviously be irrational to close a project which was more than reimbursing the Government for its current costs.

The Closure of Existing Waterways

Very probably, however, application of the market test would generate strong pressures to take long-established waterways with old and antiquated navigation systems out of service. These are waterways on which user charge collections would fall short of operation and maintenance costs. The Allegheny, the Missouri, and, possibly, a portion of the Upper Mississippi, along with a number of others, would be likely candidates for closure.

Early cost-recovery advocates were frank to say so. The Doyle Study Group, for example, said in 1961:

> "Under a reasonably developed user charge program *** the marginal or submarginal [waterways] would gradually disappear from the American transportation scene as did the pony express [and] the Conestoga wagon ***."[1]

More recent proponents, however, are more realistic. The U.S. Department of Transportation's Mr. Beshers accompanies his market test message with these words:

> "There are some segments of the rivers that really could not bear segment charges, and nobody has any intention of shutting them down ***."[2]

While realistic, this statement bogs down the market test concept in still an additional irrationality. Presumably, a proposed new project which ostensibly couldn't pass the test would be turned down. But, with no closings, an existing waterway which fails even worse would be continued. Suppose the new project would cost the

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[1] National Transportation Policy, Report Prepared for the Committee on Interstate and Foreign Commerce, United States Senate, by the Special Study Group on Transportation Policies in the United States, Washington, D.C. 1961, Page 206.

[2] Remarks at 58th Annual Meeting of the Transportation Research Board, Washington, D.C., January 17, 1979.

Government a net of $2 million a year. An existing waterway, already carrying traffic, costs the Government a net of $5 million a year. Whatever the logic of the market test, it could hardly induce a decision to save $2 million one place while, by the same rationale, spending $5 million at another. If existing waterways wouldn't be closed, why test them?

Leonard Lee Lane, senior policy analyst for the Association of American Railroads, sees the principle of the market test more clearly. He says:

> "*** [T]here may be many reasons for not having a segment charge and not closing down the inefficient segments of the waterway system, but there are no good reasons."[1]

This is hard-line market testing. It discards realism for doctrine.

Market Testing the Railroads

The American railroad system is interlaced with rail line segments which have flunked the market test. A segment of a railroad which has to compete with a parallel waterway, with a slurry pipeline, or (sometimes) with another railroad carries freight at competitive below-cost rates which fail to cover the fixed right-of-way costs. This is a market test flunker. The railroad company covers this shortfall by charging extremely high rates on its other line segments where it has a complete monopoly on principal commodity movements. Many shippers with only one railroad connection and whose shipments are unsuited to other modes of carriage are sitting ducks for high rates.

Thus, the high-rated rail segments subsidize the low-rated segments — a species of private taxing and subsidy system. In addition, of course, the railroads collect hundreds of millions of dollars a year of unreimbursed Federal subsidy. For the 20 years ending with 1978, capital assistance alone amounted to $8.25 billion.

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[1] Remarks at 58th Annual Meeting of the Transportation Research Board, Washington, D.C., January 17, 1979.

A Waterways Market Test Administered by Railroads

Unlike a railroad, a water carrier is not in a position to charge high rates on selected traffic with a view to subsidizing low-rated movements. Market-test user charges would force every barge line on the rivers to charge rates covering, not only its own costs, but also the full Federal costs of the waterway on every ton of cargo in every barge. Federal waterway costs, including both capital charges and costs of operation and maintenance, are, in fact, fixed costs and unresponsive to the level of traffic. But, any system of user charges would convert these fixed Federal costs into variable costs on the books of the carriers.

Furthermore, unlike the railroads, waterway carriers do not have any captive traffic to tax. Barge carriers are relatively small operations, and large numbers of them compete with each other on the same waterway segments and in the same stream of traffic. If one barge operator tried to impose exorbitant rates on a customer, another one passing in the same channel would take the business away from him.

Federal waterway costs, including both capital charges and costs of operation and maintenance, are fixed costs and unresponsive to the level of traffic. But, any system of user charges would convert these fixed Federal costs into variable costs on the books of the carriers.

A segmented waterway market test would thus open the door to selective elimination of waterway segments by the railroads. The water-parallel railroads, by cutting their below-cost rates to the bone. could siphon traffic off the river long enough to make sure that the river segment failed the market test. Then, after the river segment was closed, the navigation projects abandoned, and the waterway competition eliminated, rail rates would soar. In 1975, A. Scheffer Lang of the Association of American Railroads estimated that the railroads could increase their net income by about $500 million a year by this process.[1] Their increase in gross income — that is, in revenues — would run well into the billions. The deregulation of railroad rates, now in progress, means that the Government would look the other way. A market test on the waterways would thus tend to be administered in significant measure by the railroads.

The Government As Merchant

Government in a democracy represents the people. It is the people's agency. Advocates of the market test don't see it this way. They prefer the Government, not as a sovereign dedicated to the advancement of public values, but as a merchant vending his wares at arm's length to the shoppers. The Government, as merchant, would operate the navigation works as a business. The business would be a solid monopoly with exclusive and total control of access to the waterway system. The results would be extremely subversive to public values.

First, waterway projects would be highly geared to prospective revenues. Very commonly, navigation is only one of a number of waterway project functions. The same structures and programs which sustain the navigation channels also contribute water supply, provide flood control, enhance water purification, furnish hydroelectric potential, and constitute a base for outdoor recreation, irrigation, and soil conservation — the functional combinations varying from one project to another. The Government as merchant would be strongly inclined to trim back on the functions that wouldn't pay. This approach is inherent in the market test concept.

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[1] In a special article entitled "The Skirmish Line" in The Journal of Commerce of December 5, 1975, Mr. Lang stated: "In an attempt to compete for some part of the intercity freight traffic, which would otherwise go on the inland waterway system, the railroads have reduced freight rates on water-competitive traffic below what they would otherwise be. Indeed, we have estimated that in the aggregate these water-compelled freight rate reductions depress the railroad industry's net income by something on the order of $500 million per year."

Justification of project proposals under a market-test user charge system would thus lead to irreparable neglect of vital water resource potentials. A typical project may be conceived under a variety of alternative designs, representing progressive stages towards more complete utilization of the resource potentials of the site. The market test criterion would be taken as a mandate to construct a project only to such a scale and with such features as could be justified by prospective toll revenues. Numerous instances could be cited in which design characteristics would render impossible any subsequent expansion or conversion. Preoccupation with commercial exploitation would inevitably neglect public values by preempting sites with projects stunted to commercial scale so that public value potentials would be forever relinquished. This danger is especially serious in view of the preemption of the limited number of existing project sites by community and industrial growth.

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Conflict with Coordinated Water Resource Development

Implementation of the policy of Congress as expressed in the Water Resources Planning Act of 1965, as amended, "to encourage the conservation, development and utilization of water and related land resources on a comprehensive and coordinated basis" would be obstructed by reliance upon market-test user charges as a basis for evaluation of navigation improvements.

The Report of the House Committee on Interior and Insular Affairs to accompany H.R. 1111, which, with amendments, became the Water Resources Planning Act, strongly emphasizes the need to "plan the use of our Nation's available water supplies to provide maximum benefits to all purposes — controlling floods and preventing pollution, providing water for irrigation, assisting navigation, providing hydroelectric power and energy, and providing outdoor recreation opportunities and fish and wildlife conservation and enhancement."

The necessary effect of the market test would be to defeat this objective of benefit maximization. This consequence is self-evident in the case of single-purpose navigation projects since cost-recovery user charges would inevitably reduce potential traffic. In the case of multiple-purpose projects, since the benefits attributable to navigation would be curtailed, a heavier burden of aggregate joint project costs would be cast upon other project features. This would mean higher charges for water supply and recreation features and an increase in costs to be assigned to flood control. As a result, the prospects for consummation of the total undertaking would be impaired, if not completely frustrated.

The No Man's Land of Federal Costs

Furthermore, the stage would be set for selective imposition of user charge rates at levels governed by what the traffic would bear. Admittedly, the market test advocates propose that the charges be no higher than 100 percent of Federal costs for navigation. But, how much are these costs? Capital outlays are generally intermixed with operating charges. The Government does not regularly keep books on a depreciation basis. Besides, on multiple-purpose projects, the question of allocating costs as between navigation and a variety of other joint functions is an accountant's no man's land. The circumstances would be present and inviting for the adjustment of estimated Federal costs for navigation on a waterway segment to whatever level would seem to justify higher user charge rates on that segment.

The monopolistic Government as merchant would have many captive customers. Numerous localities and industries subsist mainly on a water transport base. For example, a number of steel mills in the Upper Ohio Basin have no facilities or connections for receipt of essential fuels by any mode but water. The same is true of numerous electric power plants, chemical plants, and others. Waterside elevators often have no connections for rail shipments of grains and soybeans.

Building for the Short Term

The Government as merchant would be strongly inclined to design each waterway project for a short-term payoff. At the present time, waterway projects are normally designed for a service life of 50 years. Many serve much longer. Few officials, either private or public, are prepared to make capital commitments for objectives so far in the future. Aiming for a successful market test within the life span of the present generation, projects would quite usually be designed for near-term expectations, with a strong likelihood for replacement every 15 or 20 years or less. The aggregate long-run costs would be greatly inflated.

Thus, had the Mississippi River locks and dams been built in the 1930's for only a 25-year life, replacement work would have had to begin in the 1950's. And, with only a 25-year life built into the replacements, in the 1980's the structures would be just about as deteriorated and congested as they now actually are. In other words, instead of the one construction program, which was completed in the 1930's, two would have been required to get us exactly where we are today.

On the Ohio River, two navigation structures were completed in 1961. They were designed for a 50-year life and are still considered new. Had they been designed for a 25-year life, they would be worn out by 1986. Replacement work would be under way right now — and at twice (or more) the original cost.

Government as government is more far-sighted. It looks beyond the life span of the present generation to the long-term requirements of a living Nation. Government programs at their best should effectuate the unity and cohesion between the generations which constitute the Nation's continuity and integrity. After all, to the builders of the navigation systems of the 1920's and the 1930's, we, ourselves, are the future generation. We should do no less for those who will follow us into the 21st Century.

On multiple-purpose projects, the question of allocating costs as between navigation and a variety of other joint functions is an accountant's no man's land. The circumstances would be present and inviting for the adjustment of estimated Federal costs for navigation to whatever level would seem to justify higher user charges.

Waterways Development for Public Policy Objectives

The market test philosophy would abandon Federal responsibility for maintenance in the public interest of the Nation's natural endowment of water resources and substitute a narrowly commercial approach which conceives of the national government as a vendor of services — selling to the public, as a financial transaction, the right to use the waterways, long regarded in American jurisprudence as jus communis, or a common right. This would constitute at least a partial repudiation by the Congress of what is inherently a governmental function.

For a century and a half, since passage of the first river and harbor legislation in 1824, Congress has recognized the importance of water resource projects as measures for achieving broad economic and social goals. In the Nation's early history, transportation on rivers and canals contributed to unification of the country, to westward expansion and, through prohibition against tolls or duties on river traffic, to the reduction of sectionalism and discriminatory impositions on commerce.

The inevitable consequence of commercialization of the waterways is to restrict improvement programs to those areas where the residents are rich enough to pay for them, to combine such programs within the narrow boundaries of commercial justification, and thus to forego the broad public benefits to this and future generations which have long been the goal of our established policy.

Depressed Area Relief, Agriculture, Exports, and Energy

In more recent times, waterways development has served to promote the economic vitality of otherwise depressed regions, providing job opportunities for rural populations away from crowded urban areas, to facilitate efficient low-cost distribution of energy materials, to impose a pervasive restraint on inflation, and to exercise a stimulus to economic growth, employment, and capital formation.

Water transportation has been a critical factor in the resurgence of regions of the country long afflicted by economic stagnation, including Appalachia, the Ozarks region, and the central South — regions now finding their way to full participation in American standards of productivity, employment, and income.

Development of navigation on the Mississippi, Columbia, and other river systems has been a mainstay of farm income, higher farm productivity, and massive and rising exports of field crops, accompanied by enhanced food supply. The strength in international competition of such U.S. water-based industries as steel, chemicals, and oil refining rests to an important degree on a modernized navigation system.

In an era of energy insecurity and scarcity, most of the cargo carried on the inland waterways consists of critical fuels, with domestic coal and steam coal exports the most rapidly growing of all, and moved by the most energy-efficient technology of all surface modes of transportation.

The inevitable consequence of commercialization of the waterways is to restrict improvement programs to those areas where the residents are rich enough to pay for them, to combine such programs within the narrow boundaries of commercial justification, and thus to forego the broad public benefits to this and future generations which have long been the goal of our established policy. Over ever-broadening areas, the Government would tend to govern less and sell more.

As Prof. Phillip E. Taylor puts it in his book on The Economics of Public Finance:

> "A much greater danger in extension of the fee system is in its tendency to justify payments to government in terms of specific benefit to the payer. The obverse of this tendency is to justify payments to government only where a specific benefit is conferred. Such an emphasis obviously runs counter to the ideal of contribution to government on the basis of ability to pay."[1]

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[1] Taylor, Phillip E., The Economics of Public Finance, The MacMillan Company, New York, New York, 1953, Page 21.

As applied in the field of waterway and harbor improvement and maintenance, the logical extension of the market test doctrine would be for the government to organize project corporations and finance operation and construction through revenue bonds. Only those projects would be built where payment was assured on a strict commercial evaluation, and to minimum scale for a short-term payback. The potentials for contribution to critical national objectives would be cast aside.

Long Lead Times of Community Renewal and Development

Under the market test, waterway improvements could not fulfill their prime function as a stimulus to community and industrial development. Too much time must elapse between the improvement outlays and the full realization of traffic growth with the associated flowering of industrial activity and community welfare. Regions where growth has long stagnated, in spite of rich local resources and manpower, promise abundant return of Federal investment in waterway facilities in the form of community growth and a mounting contribution of production to the Nation's economy, but only as a long-term expectation.

In consequence, the full development of such important regional resources as those of the Arkansas Valley, already contributing richly to the national economy, would be foreclosed. Similarly, presently industrialized regions, whose continued growth is handicapped by outmoded water transportation facilities, as is true of steel, chemicals, and other key industries in the Upper Ohio Valley, would be condemned to stagnation and deterioration under the strait jacket of the market test. In such instances, there would be a waste, not only of undeveloped natural resources, but of existing human and capital resources.

Irrationality of Partial Cost-Recovery Proposals

The most articulate of the market test advocates, in the very terms of the cost-recovery user charges they propose, display a lack of faith in their own doc-

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trine. Obviously, a true market test would call for 100 percent recovery, both of Federal operation and maintenance costs and of capital charges as well. Any project which repaid the Government only a portion of either of these cost categories would clearly have failed the supposed test. Yet, most cost-recovery charges which have been proposed would fall substantially short of this target. For example, the proposals of Sen. Pete V. Domenici (New Mexico) incorporated in S. 790 and in Amendment No. 1460 to H.R. 8309, both in 1977, while specifying recovery of 100 percent of Federal costs of waterway operation and maintenance, lost heart with respect to capital charges and called for recovery of only 50 percent of these.

Tacit concession of the public values of water transportation development is clearly and inescapably implied in this 50 percent shortfall. But, it is an implication almost totally lacking in rationale. Why 50 percent of capital charges? Why not all of capital charges? Or 25 percent? Or 50 percent of operation and maintenance costs? Or something else? The 50 percent figure is totally arbitrary and vacuous.

Nobody can measure by any specified percentage that portion of future water resource development which should be assigned to public values. Neither the magnitude of these future values nor what they will be during project life can possibly be known. The evident effort to do so by specifying a wantonly capricious percentage pulled out of the air betrays the essential fallacy of any user charge on the waterways at a specified percentage of cost recovery and of the bankruptcy of the market test concept itself.

Market Testing by the Business Firm

Maybe the market test doctrine sounds businesslike and hard-headed. It is not businesslike at all, and it is soft-headed. Business firms do not make long-term fixed investments involving hundreds of millions of dollars and await a market test to see if they work. Before committing large sums to construction, they usually make thorough studies of the rate of growth and the changing structure of demand and of the underlying factors which explain this growth. They engage outside consultants to analyze the market and to project future developments. New plants are designed on the basis of protracted and detailed economic and engineering analyses. Staff work is repeatedly reviewed up the stairway of the echelons of authority. Some risk is inevitable. It is minimized by systematic analysis and planning.

Waterway Project Planning and Implementation

These businesslike principles are just those now employed in the planning and construction of navigation projects and in their maintenance throughout the United States. The Federal agency charged with this program is the Army Corps of Engineers. The Corps, too, has long experience with the rate of growth in demand. New projects on the Ohio, the Mississippi, and other rivers are planned on the basis of trends in observed demand over periods exceeding 50 years. The Corps, too, employs outside and independent consultants and does so continuously and extensively.

The Corps assigns to those firms elaborate and in-depth economic, environmental, and engineering surveys, and it cross-checks their findings against each other for validity.

The Corps is a problem-solving agency, responding to public problems as they surface. It acts only on Congressional authority. It holds extensive and successive public hearings. It explores all feasible alternatives. Findings and recommendations of District Engineers are analyzed and revised by Division Engineers and successively reviewed by the office of the Chief of Engineers, the Board of Engineers for Rivers and Harbors, and the Secretary of the Army. Comments of all concerned agencies of the state and Federal governments are sought and incorporated into the planning.

The market test doctrine is unrealistic and irrational. It conceives of a narrow and commercialized alienation of the Government from the citizens it serves — to the neglect of critical public values — and its unworkability and irrationality are implicitly but incontestably conceded in both the utterances and the proposals of those who assert it.

Evaluations of each project are repeatedly revised and up-dated for recommendations to Congress, both for authorization and for step-by-step funding as planning and construction proceed. And as for risk? As with a business investment, some is unavoidable. But, in the planning and authorization of navigation works, risk is reduced almost to the point of invisibility.

The Bankrupt Market Test Doctrine

The market test doctrine is unrealistic and irrational. The precedents cited by its advocates as to other modes of transportation are flagrantly invalid. Implementation of the doctrine would institute a form of subsidization which would concentrate the burden on those least able to pay. Rigorous adherence to the concept would constitute an exercise in economic distortion, masking public fixed costs as private variable costs, frustrating comprehensive multi-purpose water resource programs, slanting the allocation of common costs against reimbursable functions, inducing the neglect of long-term public values, and prolonging the economic stagnation of the lower income regions of the country least able to pay.

In sum, the market test doctrine conceives of a narrow and commercialized alienation of the Government from the citizens it serves — to the neglect of critical public values — and its unworkability and irrationality are implicitly but incontestably conceded in both the utterances and the proposals of those who assert it.

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SUBCOMMITTEE ON WATER RESOURCES

SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

Testimony of Rodman Kober in Behalf of National Waterways Conference Regarding S.810 and Amendment No. 32, Barge User Charge Legislation

My analysis and conclusions regarding barge user fee legislation are offered in behalf of National Waterways Conference (NWC), of which I am a director. As background, I am Vice President-Corporate Transportation for Continental Grain Company at its headquarters in New York City.

I have had almost 20 years of experience in marketing, transportation, and logistics of grain and grain products in both domestic and foreign commerce. I have served as the chief transportation officer of Bunge Corporation and Louis Dreyfus Corporation prior to my appointment in my present position by Continental. In each of those assignments, I have had extensive experience in dealing with the economics and operations involved in the movement of grain by barge, rail, and motor vehicle; and I am frequently required to determine the competitive relationships among those modes which affect the trading and shipment of grains and oilseeds in this country.

I am a member of numerous organizations whose missions include development of public policy regarding the economic welfare of this nation's transportation system. I have frequently testified before regulatory agencies and in judicial procedures on the trading and movement of large quantities of grain within the United States. I have also testified on numerous occasions before congressional committees regarding proposed transportation legislation.

Although I appear today as a spokesman for the barge mode, I have no bias in this regard as a function of my employment. In fact, Continental Grain shipped and received almost 200,000 carloads of grains, oilseeds, and grain products during 1980, which would support the conclusion that Continental is a major user of rail services in this country.

My purpose in this testimony is not to oppose barge user charges per se; instead, my mission in behalf of NWC is to encourage the development of comprehensive transportation legislation that will deal with the issue of recoupment of transport subsidies or grants regardless of the mode that is beneficiary. My purpose is further to question whether a waterways user charge may be inconsistent with other important national goals.

Modal Equity. Although there may be other public policy support for barge user charges, this impost has been championed by America's railroads on the theory that economic equity demands recoupment of the expenses associated with commercial shallow-draft navigation. The railroads apparently believe, naively, that the issue of other prior government grants or subsidies would become a countervailing factor; but the economic debate has now become mired in whether there is a supportable distinction between subsidies to waterways users and grants-in-aid to railroads and whether total prior subsidies to rail carriers actually exceeded the alleged subsidies to commercial shallow-draft users. That debate has proven to be an indadequate basis for development of waterways funding policy, and my observations will relate instead to a rational program for recovery of all future transportation subsidies. If Congress should determine that recovery of waterways expenses is now appropriate on the theory that a user should be prepared to pay the total cost of a commercial service, then it would follow that the user of any other transport mode should be similarly prepared to pay. This is what NWC proposes as modal equity in the establishment of transport user charges, and NWC proposes that the issue of modal equity should be dealt with in the same legislation that Congress would use to impose barge user charges.

Rather than attack the basic theory of modal equity in this regard, proponents of barge user fees have suggested that subsidies to railroads not be similarly recovered on the theory that railroads in general are in poor financial shape. This premise is simply not true. Even if you include Conrail and the Milwaukee in the calculation, the rate of return for all US railroads has risen from one percent or less to better than four percent in about three years. If you eliminate Conrail and Milwaukee from that calculation, the recent determination of rate of return would soar. In fact, a review of major railroad annual reports clearly indicates highly profitable operations despite the unsupportable undertone of general financial plight.

In assuming the general financial condition of our railroads, you must also consider the various accounting methods that can be used to project annual results. The so-called betterment accounting system required by the Interstate Commerce Commission tends to portray the results of rail operations in the most negative focus; and those results are often understated as compared to the accounting focus presented in annual reports for shareholders and the public investment community. Furthermore, we are now involved in a process of entity consolidation in the railroad industry, which will tend to eliminate through consolidation or merger some of the weaker Class I railroads. Thirdly, we must be cautious in accepting the allocation of administrative expenses and of revenues and profits by a railroad's management among its railroad and non-carrier businesses and operations. NWC believes that critical evaluation of current railroad earnings would lead any reasonable person to the conclusion that rail carriers generally are not in financial straits.

The Staggers Rail Act of 1980 increases the importance of competitive economics and pricing in the rail system. At the same time, that legislation recognizes that some shippers are captive to rail service and are entitled to protection from monopolistic pricing. It has been claimed that no shippers are actual rail captives based on the theory that a modal alternative is almost always available. That modal alternative, for grain shippers, has been identified as barge or truck-barge service. Thus, any effort to promote rail service at the expense of barge service is a blow against the competitive restraint held out to allay the fears of those who perceive dominant rail service as a threat under Staggers.

There are no rail export rates on grain that are not influenced and constrained by the realities of barge pricing. Although many grain shippers do not have economic access to barge transportation, their export rail rates must reflect barge pricing, for grains are fungible commodities available from thousands of supply sources many of which are readily tributary to a navigable waterway. Requiring all modes to repay federal subsidies would mitigate at least part of the promotional impact of a user charge on commercial barge operations alone, which singular impost would make barge service less of a competitive influence on rail grain service and rates. You will discover that many more grain shippers are captive to rail service than various economic consultants have suggested, and a failure to adopt a modal equity policy will dislocate a substantial portion of our grain handling capacity. Is it worth the gamble; or does prudent policy development require that Congress determine with certainty, beyond that expressed as theory by economic consultants, the importance of barge service and pricing to rail competition and the effect on that necessary competition of an absence of equal modal treatment of subsidy recovery.

Consistency with National Energy Policy. Railroads have referred to barge user fees as required by economic and "competitive equity." This phrasing can only mean that rail managers believe that waterway user fees will divert traffic from barge to rail. The question remains, however, whether such diversion would prove counterproductive in view of the policy that preaches fuel conservation.

NWC posits that commercial barge service is far more energy efficient than rail service. Although there have been some contradictory claims by rail carriers, those comparisons make assumptions for one mode that are not applied to the other. Also, the comparative rail data often do not reflect actual operational circumstances.

If controversy persists regarding relative fuel efficiency, can we risk a user charge of sufficient magnitude to increase fuel consumption? NWC suggests that the fuel efficency debate must be quantified before a rational estimate can be made whether it is in the national interest to encourage significant diversion from barge to rail shipment. If barge service proves to be the more energy efficient, a fuel conservation policy would require a determination of whether any or all of the freight diversion potential will be counterproductive despite its apparent benefit to rail carriers. Again, can we risk adversely affecting fuel use in transport service when the assumptions to the contrary are not based on current, relevant data that is examined by truly impartial experts? Too often in the past, legislative assumptions that were not supported by hard data were translated into policy changes that, through unforeseen costs in implementation, added to the inflationary pressures that have frustrated our national economy.

Who Will Ultimately Pay the User Charges? Some commentators have suggested that barge carriers or their customers will absorb user fees, but such economic action would belie human economic nature. All commercial entities seek to pass along operational and administrative expenses unless market circumstances inhibit that impulse temporarily. In ordinary market circumstances, user charges will find their way into barge pricing decisions, which simply postulates a commercial reality. In our agricultural economy, all increases in logistical costs are borne by the producer or the consumer. It would be politically convenient if barge user charges were simply passed on to foreign buyers, for example; but that consequence is likely only in the case of rampant international demand and limited supplies and/or logistical capacity. Although export demand for American grains and oilseeds remains strong, current demand could hardly be characterized as rampant despite the grain export record likely to be set in 1981. Nor is our grain logistics system strained; ask any rail or barge manager about the currently large number of grain cars and barges that are idle, barge rates that are at historical lows, and consequent rail grain rate reductions to compete with lower barge rates. Thus, the producers of grains and oilseeds are most likely to ear the full burden of barge user charges even during periods of relatively strong demand which, despite its quantum, does not place any strain on our total grain logistics system or our supplies.

America's farmers are only one source of supply throughout the world to which grain importers would look for competitive offers. Each grain and oilseed, by grade, has but one world value at any point in time, which would reflect the normally small fluctuations and adjustments in prices from competing export nations. In these circumstances, US exporters could not merely add a barge user charge to their individual perceptions of competitive world grain values without increasing their risk of offering to sell at uncompetitive prices.

All matters considered, therefore, NWC feels secure in predicting that America's grain farmers will pay user charges, in the form of lower grain prices, more often than not. Here again, can Congress risk a significantly higher impost without study of its probable effect on grain producers' income and whether any substantial negative effect could trigger a belated call on the federal treasury through one or more agricultrual price maintenance programs.

I thank you, Mr. Chairman, and this committee for the opportunity to explore some complex issues that arise from user fee proposals that would treat waterway expenses only.

Respectfully submitted,

Rodman Kober
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Testimony Before the
Senate Committee on Public Works
Subcommittee on Water Resources

on

S. 810 and Amendment No. 32

A Bill to Provide for the Recovery of Capital and Operation and Maintenance Costs Assignable To Commercial Waterway Transportation

by

Dr. Lonnie E. Haefner

June 16, 1981

Mr. Chairman and members of the Senate Committee on Public Works, Subcommittee on Water Resources, I am honored to present testimony on SB810 and its Amendment 32. The Transportation and Urban Systems Engineering Program at Washington University in St. Louis, Missouri, under my direction, has recently been hired by Bi-State Development Agency and the Port of Metropolitan St. Louis Port Advisory Council to empirically research the impacts of user charges on shippers, carriers and industrial plant dislocation-relocation in the St. Louis metropolitan region.

The Bi-State Development Agency is an interstate compact agency established in 1949 by the States of Missouri and Illinois and ratified by the United States Congress. The Agency is modeled after the New York-New Jersey Port Authority and has a broad range of development powers which can be used in the St. Louis Metropolitan Region to improve the economic base and welfare of the residents.

The Bi-State Development Agency is the regional port coordinating body for our metropolitan region. In this capacity, which was assumed in 1975, we are concerned with promoting and developing port facilities to take advantage of our great natural resources, the Mississippi, Missouri and Kaskaskia Rivers and improve the region's tax base and create new jobs.

As stated above, this testimony is being provided on behalf of the Port of Metropolitan St. Louis Advisory Council, which was created and is chaired by the Bi-State Development Agency. The Port Advisory Council consists of private industry and public agencies from Missouri and Illinois who are concerned with port development in the St. Louis Metropolitan Region.

The Port of Metropolitan St. Louis consists of seven port districts, 4 in Missouri and 3 in Illinois, and covers 70 miles of the Mississippi River from the northern boundary of Madison County, Illinois to the southern boundary of Jefferson County, Missouri, plus a portion of the Missouri River and the Kaskaskia Navigation Project. The Port of Metropolitan St. Louis is the largest inland port on the Mississippi River and handled some 23 million tons of cargo in 1978. It is situated at the heart of open water, year-round navigation and serves as a national break-bulk point for all modes of transportation. The dominant commodities moved to and from the Port of Metropolitan St. Louis consist of petroleum products, cash grains, coal, chemicals, fabricated metals and iron and steel. The metropolitan port has over 105 docking facilities and can handle almost any commodity moved by barge.

Needless to say, the Port of Metropolitan St. Louis and its associated employment and economic benefits is vital to our regional economy. Because of this fact, the Port Advisory Council has followed very closely the inland waterway user charge issue and recent legislation proposed by the Administration as well as Congress. Our concern, quite frankly, is that inland waterway user charges, if not analyzed and evaluated properly, can have a detrimental effect on our present port activities as well as future expansion plans.

The research effort is being carried out through in-depth interviews of ten of the most water-sensitive industrial users significant to the St. Louis regional economy. On the basis of the interviews completed to date, a consensus has been reached with respect to modal split related to rail-water shifts under various fuel tax assumptions and related impacts of other types of user charges on these selected industries. Initial computations are presented in Tables 1-5, using 1978 Maritime Administration Commodity Flow Data and ICC 1% waybill rail samples factored to 100% sample size. I will now examine these tables in depth.

Your attention is initially directed to Table 1, wherein we define the symbols in use in the remaining tables, and the modal split relationships. The consensus of industries interviewed, and the water transport industry representatives in the St. Louis region indicate that a congestion toll might well cause total 100% diversion from water to rail on relevant commodities. Discussion with respect to various fuel tax levels which have been presented in a variety of bill formats indicate that the waterway carrier community may have some elasticity in internalizing such costs in order to withstand rail competition. The conclusions are as shown, that approximately 5% would be directed from water to rail at 10¢/gallon fuel tax; 15% diversion at 30¢/gallon fuel tax; and 70% at 70¢/gallon fuel tax. It is conceded that the 70¢ tax is generally excessive and would cause significant financial hardship and traffic loss for the towing industry in general, incapable of being internalized by even the most financially sound firms.

TABLE 1

SYMBOLS AND MODAL SPLIT RELATIONSHIPS

GIW - Gulf Inland Waterways

UM - Upper Mississippi

LM - Lower Mississippi

O&T - Ohio River and Tributaries

GL - Great Lakes

Congestion toll - 100% diversion from water to rail

Fuel Tax: 10¢ - 5% diversion from water to rail

30¢ - 15% diversion from water to rail

70¢ - 70% diversion from water to rail

Moving to other specific tables, Table 2 exhibits the haulage of all farm products (corn, soybeans, sorghums, etc.) with a congestion toll on the Upper Mississippi River, specifically impacting at Lock and Dam 26. Please note the starred line item in Table 2; we are most interested in that line haul from the Upper Mississippi to the Gulf Inland Waterways and the Lower Mississippi which yields a diversion of 38,376,098 tons of grain from water to rail. This impact has several very significant features:

1.) Questionable capability of the presence of adequate rail car supply to carry such a diverted amount of tonnage.

2.) Potential incapability of the towing industry to arrange meaningful fixed price contracts which are compatible with the shipper, due to lack of precise knowledge of size, mechanics of operation and collection of congestion fees; or the citing of all contract terms on a "worst case congestion criteria" by the towing operator.

3.) Disruptive navigation patterns above the locks, as tow operators attempt to stand-off or avoid periods of peak congestion, resulting in potentially longer cargo and equipment inventory turnaround time.

4.) Based on all of the above, significant potential economic harm to the towing industry at large, and marginal financial operators immediately.

Table 3 reviews the typical modal split diversion assumptions on 10¢, 30¢ and 70¢ per gallon fuel taxes for fabricated metals and rolled steel. The regional loss to waterway carriage ranging from

TABLE 2

IMPACT OF CONGESTION TOLL

Commodity	Route	Tons Water	Tons Rail
Farm Produce	GIW to UM	-0-	5,605
	LM to UM	-0-	57,223
	UM to UM	-0-	37,134,027
	O&T to UM	-0-	2,380
	GL to UM	-0-	3,078
	*UM to GIW and LM	-0-	38,376,098
	O&T	-0-	908,351
	GL	-0-	393,416

TABLE 3

IMPACT OF USER CHARGE ON FABRICATED METALS

		Current		Fuel or Ton Mile Fee					
		Modal Split		10¢		30¢		70¢	
Commodity	Route	Tons Water	Tons Rail	Tons Water	Tons Rail	Tons Water	Tons Rail	Tons Water	Tons Rail
Fabricated Metal	UM to GIW & LM	14,801	147,552	14,061	148,292	12,581	149,772	4440	157,913
	O&T	15,820	81,620	15,029	82,411	13,447	83,993	4741	92,694
	GL	8,906	15,794	8,461	16,239	7,570	17,130	2672	22,028

5% diversion (14,061 Tons subsequently carried by water) to 70% diversion (4,440 tons, subsequently carried by water) is evident.

Table 4 illustrates this diversion in light of two forthcoming issues of major dimension in the next decade, intermodality, and the simultaneous presence of rail deregulation with user charge legislation. The example is the movement of western coal to St. Louis by rail and thence downstream to the Gulf by water. As water rates increase, through application of user charges, it is possible that certain captive haul rail shipment rates may increase just below that of water. St. Louis public and private terminal operators feel 93% of the water increment is a meaningful rail increment. Discussions with coal operators indicate 100% of water and rail increments will be passed onto the consumer. Since all such coal movement is for electrical energy generating power plants in the Gulf, the national charge on energy will increase, as shown by increments in the totals column on the right-hand side of the page. Note the current price of haul annually is $288,000,000, and the respective increments to $290,084,020 at 10¢/gallon; $294,252,850 at 30¢/gallon and $302,589,990 will be completely passed onto the consumer. Thus fuel taxes on certain captive intermodal flows could yield increased consumer prices.

Table 5 is a review of impacts of segment tolls. Here, a different evaluation technique is employed. Segment tolls, depending on the phase in period, will discourage carriers from operating on high cost, newly developed waterway segments.

TABLE 4

USER CHARGE IMPACTS ON COAL RELATED PRICES

Base Rate:

Water = \$10/Ton (12×10^6 tons) = \$120 $\times 10^6$

Rail = \$14/Ton (12×10^6 tons) = \$168 $\times 10^6$

Total: \$288 $\times 10^6$

TAX RATE	WATER	RAIL (93% of Water)	TOTAL
10¢	121,079,940	169,004,340	290,084,280
30¢	123,239,820	171,013,030	294,252,850
70¢	127,559,580	175,030,410	302,589,990

TABLE 5

IMPACT OF A SEGMENT TOLL ON THE KASKASKIA RIVER

Number of Employees = 500 Number of Acres = 400

1. FOOD PRODUCTS	
Non-Basic Industry Employment	2.99 × 500 = 1,495 additional jobs
Production	24,207 × 500 = $12,103,500
Non-Basic Industry Revenue Impact	1.75 × $12,103,500 = $21,101,125
Government Revenue Impact	0.04 × $12,103,500 = $484,140 tax dollars
2. AGRICULTURAL PRODUCTS	
Non-Basic Industry Impact	1.48 × 500 = 740 additional jobs
Production	14,695 × 500 = $7,347,500
Non-Basic Industry Revenue Impact	2.02 × $7,347,500 = $14,841,950
Government Revenue Impact	0.05 × $7,347,500 = $367,375 tax dollars

Simultaneously, real estate developers, industrial park planners, mortgage bankers and corporate plant location and financial officers will forego waterway locations they intended to implement where they may be faced with no, or excessively expensive waterway haulage as the towing companies respond to cover segment toll costs.

Although we are aware this can vary significantly by geographic choice of segment length, and type of phase-in period, it is appropriate to present a very real example of segment tolls on a newly developed section of waterway. The situation exhibited in Table 5 is the actual present situation faced by the Kaskaskia Port District. It has 36 miles of developed waterway, including a lock and dam, and significant coal transfer. A 400 acre industrial park is under active consideration for development, to broaden the port district's economic base, either in final food processing industries, or agricultural processing industries. The presence of either such facility and their projected basic industrial employment of 500 persons would, as illustrated with St. Louis Regional Commerce and Growth Association economic multipliers,have significant economic impacts on the surrounding region. Non-basic employment, the basic industry production dollars, non-basic industry revenue and government revenue impacts are projected to be as shown in Table 5. It is apparent that the industrial location will not be pursued under a segment toll scheme. As such, the economic opportunity losses to the region exhibited in Table 5 are obvious and significant.

In conclusion, while it has been deemed appropriate in the processes of competitive and modal equity to legislate user charges, it is appropriate to note that certain types of user charges have harmful and little understood indirect effects on the waterway-sensitive economic regions and the water transport industry. For the reasons stated above, I am recommending to our research client, and to you that we are not in favor of congestion tolls or segment tolls as positive mechanisms, and feel that a fuel tax calibrated at a reasonable level to allow towing companies to assess their market, internalize costs where possible, improve their operating and financial efficiency, and foresee some diversion to rail as an appropriate means of user charge which approaches equity without permanent harm to a major energy efficient transportation mode of the United States.

We sincerely appreciate the opportunity to present this testimony. The Bi-State Development Agency, the Metropolitan St. Louis Port Advisory Council and myself wish to emphasize the necessity of holding field hearings on such an important matter as this, preferably in the St. Louis region to allow a range of user, carrier and public sector viewpoints to be heard. We would be most happy to respond to that hearing with the full text of our final report and its final computations.

STATEMENT OF JAMES A. SKINNER, JR.
CHAIRMAN OF THE NATIONAL WATERWAYS CONFERENCE, INC.
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES OF THE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE, WASHINGTON, D.C.

June 16, 1981

Mr. Chairman and Members of the Subcommittee:

I am James A. Skinner, Jr., of Nashville, President of Herbert Materials, Inc., a firm which ships building materials, owns barges and towboats and operates marine terminals on the Cumberland River and connecting waterways. It is my privilege to appear before you today as Chairman of the National Waterways Conference, Inc., an organization founded in 1960 and supported by some 500 waterway shippers, river valley associations, waterway service firms, bargelines, port authorities and other waterway proponents. The Conference encourages sound, far-sighted national policies which are conducive to the continued vitality of the American waterways system as a key component of the overall freight transportation infrastructure.

We thank you for this opportunity to present our views with respect to the issue of waterway user charges. Your hearings are timely, and I hope that our testimony will be constructive.

Our members want a first-class navigation system which is not impeded by channel obstructions, bottleneck locks or other navigation hindrances. They are concerned that waterway improvements take so many years to complete, and they are mindful of the rapidly increasing level of Federal construction, operation, maintenance and rehabilitation expenditures which are presently allocated to the navigation account.

As part of its budget reduction effort, the Administration has proposed legislation (S. 810) to shift the entire cost of shallow-draft navigation programs to users and beneficiaries in a one-step process to take effect this fall. As an alternative, Sen. Domenici has proposed Printed Amendment No. 32, which provides for the phased-in recovery of 75 percent of operation and maintenance (O&M) costs and 50 percent of capital costs.

It is appropriate, therefore, that the Subcommittee on Water Resources is now examining Federal waterways policy with particular emphasis on navigation cost recovery. This is a very complex issue with far-reaching implications for interior regions, the agricultural economy, basic industries, and general economic development. In a real sense, user charges policy also bears directly on such national objectives as energy conservation, restraint of inflation, and export expansion.

Because user charges are passed on, rather than absorbed, water carriers do not really pay the tab. User charges add to the cost of waterway transportation, which is paid by waterway shippers and receivers in the form of higher waterway freight bills. Shippers and receivers in turn add the increased transportation costs to the prices of their products or, in the case of farm crops, deduct it from the prices they pay for grain and soybeans. If user charges on certain waterborne commerce cannot be passed on, that commerce will be forced off the rivers, diverted to other modes, or cease to be competitive if new sources of supply emerge in other regions or in other countries. It is important, therefore, to understand the economic dangers as well as the budgetary advantages of navigation cost recovery.

Before attempting to fix the proper level of cost recovery, we believe there are four key questions which must first be answered. They are not easy questions, and we admittedly do not know the answers. Congresss can be helpful in developing timely and objective information which will shed light on such vital considerations as these:

1. What are the impacts of navigation cost recovery? In order to avoid severe economic disruption, user charge legislation must take full account of its effects on the communities, industries, farms and mines of each river valley and waterway region. Each type or form of user charge as well as each recovery level has a different range of impacts. Economic, agricultural, industrial, employment and other effects of user charges are to be addressed in the user charge study mandated by Section 205 of Public Law 95-502, and localized user charge effects are also being assessed in about a dozen independent studies, most of which are sponsored by governmental entities and are now in their final phases.

It is important that cost-recovery impacts be given primary consideration in structuring a user charge program so as to avert economic consequences exceeding the revenue collections. We must know the probable effect of each incremental increase in the level of user fees in order to ascertain, in advance, when the proposed user charge will stop producing new revenue — that is, when the point of diminishing return will be reached.

2. What is the actual cost of the commercial shallow-draft navigation system? The Army Corps of Engineers' navigation accounts, which were non-reimbursable for more than 150 years, include numerous expenditures not directly (and some not even indirectly) related to commercial navigation. Recreational boating, environmental enhancement and other non-commercial expenditures could account for 1/4 to 1/3 of the navigation account, we are told. A recent analysis of Corps cost data revealed shallow-draft navigation projects costing perhaps $50 million annually for O&M on which not a single ton of waterway commerce was recorded. (The projects serve recreational, fishing and/or passenger vessels or are coastal harbors of refuge.)

Obviously, it would be patently unfair to demand that shallow-draft bargelines be apportioned any share of the cost of navigation facilities which they do not use or which are only seldom or sporadically used for commercial barge and towing operations. As a first step toward an equitable cost-recovery policy, it would seem incumbent that Congress identify (by each waterway or by criteria) the commercially viable shallow-draft navigation system. Also, extreme care must be exercised in allocating the cost of multiple-purpose waterways so that commercial navigation is assigned no more than its fair share. In addition, a strong case can be made for the assignment of some portion of navigation costs to the public policy objectives which navigation projects serve, notably national defense preparedness, regional economic development and increased American exports — which are not properly the responsibility of navigation users.

In our judgment, this involves a substantial allocation of costs — at least for certain waterways. When more accurate cost data are obtained, and when realistic allocations are made, we are confident that the commercial navigation share of total costs will turn out to be much lower than generally reported in the past. The development of this cost information is, of course, a critical element in determining proper recovery levels.

3. How can competitive equity among the transportation modes be achieved? While the exact amount of governmental financing of commercial waterway transportation is unknown, it is overshadowed by large-scale Federal assistance to both railroads and highways. Congr. James J. Florio (New Jersey), chairman of the House subcommittee having jurisdiction over railroads, recently stated that Federal railroad subsidies during the last five years have amounted to "some $11 billion." That would be $2.2 billion a year. Other estimates run as high as $2.5 billion a year. Railroad aid includes the Federal government's commitment to buy railroad properties and to provide railroad loans, grants, guarantees and stock financing, to refinance the railroad retirement system and, over the four years ending in 1980, some $3.3 billion in payments to Conrail. These Federal subsidy and subsidy-effect programs are continuing.

On the highways, governmental outlays on construction and maintenance far exceed the use taxes paid by motorists and truckers. In 1979 alone, the Federal Highway Administration has reported that the Federal government spent $2.3 billion on highways which was unreimbursed through highway user charge collections.

Equity demands that Federal modal assistance programs be even-handed. There must be consistency in any new cost-recovery policy as it is applied to the waterway mode. Of the major surface modes, only the railroads are not now subject to user charges. Before waterway user charges are increased, we urge the Congress to consider the issue of modal equity.

4. How is cost-recovery policy to be implemented? After potential impacts are analyzed, after commercial navigation costs are determined, and after competitive equity is assured, only then can Congress decide on the type or types of user charge mechanisms. Both the Administration and Sen. Domenici have proposed segment-specific user charges. But segment charges could force the closure of some tributary waterways which are important to certain regions, industries or agricultural producers. On the other hand, uniform charges would necessitate cross-subsidization. This is an issue which must be resolved in a manner which does not wreck the commercially viable shallow-draft waterway system. One possibility would be to consider the recovery of some portion of costs for entire waterways systems (rather than individual waterway segments). Navigation projects often improve the efficiency of whole river systems. Thus, facilities on the Gulf Intracoastal Waterway in southern Louisiana may benefit shippers in St. Louis, Pittsburgh, and/or Houston, for instance, more than Louisiana shippers.

Pending cost-recovery legislation would delegate the responsibility for selecting user charge mechanisms (lockage fees, charges based on ton-miles over a given segment, license fees, charged based on cargo capacity, etc.) to either the Secretary of the Army, as in the case of the Administration bill, or the Secretary of

Transportation, as Sen. Domenici's amendment provides. We strongly believe the Congress, rather than the Administration, should select the user charge mechanism or mechanisms and set the recovery level or levels. Also, we suggest that there are several other revenue mechanisms which should be examined, including multimodal ton-mile taxes, a transportation waybill tax, customs sharing (as proposed by Inland River Ports and Terminals, Inc.) and/or a customs surcharge (as proposed by Pacific Northwest ports).

Whatever user charge mechanism or mechanisms are selected, it is vitally important that they be administratively simple and that recovery levels be fixed over periods of at least three to five years. Constant fluctuations in user charge levels would be extremely disruptive. A phase-in period of several years is also needed. It should be noted that Amendment No. 32 provides for a five-year user charge phase-in and that S. 810 allows a maximum of 15 years to phase in O&M recovery on new waterway segments. In establishing user charge schemes and recovery levels, the Congress should act in accord with the established principles of national transportation policy — and not just to comply with budgetary reduction aims.

American waterways are too important to regional economies, industrial jobs, agricultural livelihoods, export policy, etc., to be left solely at the mercy of Federal budget-cutters. I believe navigation users and beneficiaries are willing to pay their fair share of Federal costs incurred on their behalf if users and beneficiaries of other Federal modal assistance programs bear an equal share of the burden and if there is recognition of the widespread public value of the U.S. waterway transportation system.

Background. The historic role of the Federal government in managing the Nation's vital water resources for multiple public uses is well known to the members of this Subcommittee. So too are the many publicly beneficial effects of this effort. These include, among others, efficient waterway transportation of energy products, raw materials, farm crops, and other commodities basic to the national economy; the protection of human life and property from the devastation of floods; the storage of adequate water supplies to sustain our cities, irrigate croplands, generate hydropower, and serve the needs of basic industries; and the provision of water-based recreational opportunities for countless millions of Americans.

Federal waterway involvement began in 1824 and consisted of navigation improvements to the major rivers and harbors. In 1902, the reclamation program was launched to provide water to irrigate arid regions of the West. Major floods on the Ohio and Mississippi Rivers in the 1920's and 1930's awakened the Nation to its obligation to help prevent these disasters, and thus was borne the Federal flood protection program.

In recent decades, comprehensive water resources development has provided flood-free sites for industrial development, low-cost hydropower, dependable water supplies, and hundreds of lakes for recreational use as well as thousands of miles of navigable waterways. For the most part, navigation has been a part of multiple-purpose programs which have served to transform major rivers from instruments of destruction to great regional assets. The navigation arteries became mainstreams of new commerce, attracting industry, generating jobs, and spurring development of depressed areas.

Throughout our history, water resource development has been employed by Congress as an effective instrument of public policy — first, when the Nation was threatened by the splintering tendencies of its remote frontiers, to serve the dominant national purpose of unification; second, as a primary means for control of exhorbitant rail rates for the relief of constraints on farm marketing; third, as a technique for economic stabilization, and fourth, as an effective means for stimulating economic growth and development in the cases of Appalachia, the Ozarks and other depressed areas.

Navigation's value. Now the values of the water mode in fuel efficiency, cost effectiveness, mass transportation capability and flexibility of service must be enlisted in the national effort to reduce dependence on unreliable foreign sources of petroleum and to serve the goals of the President and his Administration: to stem inflation, to stimulate greater efficiency and productivity in the private sector, to revitalize industries basic to the national economy, to balance the Federal budget, to reduce the excessive tax burden felt by most Americans, and — as a welcome by-product of economic recovery — to return the Nation to full employment.

Indeed, it is a fact to be underscored that accelerated depreciation and other techniques to stimulate industrial modernization and increased productivity cannot achieve their full potential unless the output of industry can reach and expand markets, both at home and abroad, in competition with the products of foreign industry. Realization of expanded output requires the modernization of the American merchant marine, rivers and harbors, railroads and highways to reduce costs of transportation to domestic and world markets.

Economic recovery. These goals have widespread support within that community of users and beneficiaries of the waterways system which we represent. We wish to address ourselves specifically to the most immediate thrust of the Administration's economic recovery program — dramatic reductions in Federal expenditures and bold new approaches to financing public services, such as navigation channel improvements, traditionally considered to be exclusively Federal responsibilities. The impact which these proposed changes would have on the viability of the American waterway system, and on the economic complexes which it undergirds, must be carefully considered.

Equally important is the long-term effect on the Nation's economic health of proposed reductions in public works spending and the shifting of public financial burdens for waterway maintenance to private, state and other non-Federal entities.

Will these proposals — presented as a part of a package of efforts to revive the national economy — have long-term net effects on the economy which are beneficial? If not, are alternatives available which could achieve both short-term Federal budgetary needs and the long-term economic need of the Nation to keep in place a water-based transportation system adequate to serve future generations?

S. 810. In March of this year, the Administration proposed to rapidly escalate and wholly reshape the waterway user charge program which was initiated less than three years ago with passage of the Inland Waterways Revenue Act of 1978 (Public Law 95-502).

The pending Administration proposal (S. 810) would supplement the graduated waterway fuel tax — currently set at 4¢ per gallon and scheduled to incrementally rise to a level of 10¢ per gallon by October 1985 -- with a new and unspecified package of user fees to be devised by the Secretary of the Army. Those new charges are to be set at levels sufficient, beginning this year, to transfer total financial responsibility for operation and maintenance of shallow-draft navigable channels from the Federal government to the private sector, and to fully amortize the future capital costs of construction of new facilities. (Proceeds from the existing waterway fuel tax would be credited toward this amortization.)

Ironically, the Congress is being asked to adopt these measures prior to completion of the Congressionally-mandated study of the impact of waterway user charges called for in Section 205 of the 1978 Act. Indeed, the implementation date proposed in the new legislation is October 1, 1981, just the day after the deadline for completion of the Section 205 study. In addition, a dozen state and local organizations, mostly governmental entities, are sponsoring their own independent user charge assessments. It will be August or September before most of these studies will be completed. (For your information, we have attached to this statement — as Appendix A — a summary of the current status of the local and regional waterway user charge impact studies of which we are aware. There are doubtless others that we know nothing about.)

Such a hasty approach in escalating the level of waterway user charges — prior to the completion of the impact studies — would seem to be in direct contradiction to the proposition, often stated by the President himself, that the problems of economic decline accumulated over several decades do not lend themselves to any quick and easy solution.

We question the advisibility of launching a radically new and different program of waterway cost recovery without carefully analyzing the effects of the more modest shallow-draft navigation tax program begun only last October. Before considering new legislation, we suggest that the Congress carefully evaluate the results of the Section 205 study as well as the other bodies of soon-to-be-available data on the effect of specific types of charges on certain regions of the country and on specific commodity flows.

Delegation of authority. We believe serious questions are raised by the extraordinary discretion given to the Secretary of the Army in the Administration-sponsored legislation, both in determining the costs of the inland waterway system which are to be allocable to navigation, and in establishing mechanisms for the recovery of these costs. As the Administration pointed out in transmitting its legislation to Congress, cost-recovery mechanisms may include license fees, lockage fees, river segment tolls, charges keyed to vessel size and tonnage, and congestion fees, among others.

Congestion fees. The latter device, a congestion fee, is particularly questionable, because it does not have as its primary aim the collection of a user fee covering costs. To be effective, a congestion toll would have to be set, not in relation to the facility's cost but, instead, according to a judgment as to what size fee would effectively drive marginal traffic off the congested segment and thus delay its replacement. A congestion toll sufficient to recover O&M costs of a congested lock, for example, might not relieve congestion at all. Conversely, a toll set high enough to sufficiently divert traffic, thereby relieving congestion, might cover more than the costs of the facility.

Indeed, to assure diversion, the congestion fee plus transit costs via the lock must be higher than the lowest cost alternative, usually rail. This means, of course, that a competing railroad can force increases in the congestion fee by simply raising its rates. Are the identified "users" to pay an extra tax for use of congested segments? The underlying principle of benefit taxation becomes quite confused, if not lost altogether, when congestion fees are advanced as a form of "user" tax.

Segment tolls. Segment-specific fees, which constitute key provisions of the Administration and Domenici approaches, raise particular problems with respect to newer waterways whose traffic potential is still developing. Even the five-year phase-in mechanism contained in Sen. Domenici's amendment involves rather sudden imposition of high-level fees when one considers that waterways are generally planned as projects with a 50-year life. The problems inherent in rapid imposition of high-level charges on a developing waterway such as Arkansas River are treated in some detail in Appendix B to this statement.

Enforcement powers. The other revenue devices left to the Administration's discretion in the proposed legislation raise other, equally important questions as to their administrative feasibility, economic impact, and social desirability. Further, the powers to enforce collection of the fees to be established in the legislation are extremely broad. A fine of $10,000 per day — not per offense — is specified. For failure to pay a prescribed fee, however innocent or however short in duration the failure might be, the Secretary is empowered to prohibit the offending party from further use of the waterway system. There is no provision for arbitration of honest disputes as to the amount or applicability of the charge. Innocent mistakes and late payments are to be treated as willful multiple violations, one occurring each day that the charge is disputed. Even those who refuse to pay Federal income taxes are not treated so harshly.

While the Internal Revenue Service currently has the power to impose late penalties and interest charges against businesses accused of late or insufficient payment of corporate income taxes, the Federal government would, under S. 810 and Amendment No. 32, be empowered to summarily shut down the operations of waterway carrier companies which disputed, or paid late, the waterway user charges levied against them. The Constitutional "due process" questions involved seem enormous indeed! Does the Administration really desire to make the Army a taxing agency with far more discretion and enforcement power than has been delegated to I.R.S. in decades of evolution of the personal and corporate income tax laws?

None of this is to argue, per se, against the necessity of reducing Federal outlays and bringing the national budget into balance as one means of restoring the Nation's economic health. Nor do we reject, outright, the theoretical concept of beneficiary contribution to publicly provided services. Whatever the pros and cons of such an approach to financing public works are, the time for that debate has perhaps passed. The Congress, in fact, has already instituted user charges in the form of a waterway fuel tax levied in the Inland Waterways Revenue Act of 1978.

The pertinent question to address, then, would seem to be: What level or levels and what form or forms of waterway user charges would make an appropriate contribution to Federal navigation expenditures without crippling the waterway mode and, thereby, unduly harming the national transportation system and regional economies?

Amendment No. 32. Sen. Domenici reflects concern for these questions in his Amendment No. 32. This proposed amendment provides for a user charge program which would recover 75 percent of Corps of Engineers O&M costs for navigation and also recoup 50 percent of the capital costs of new projects. These charges would not be applied all at once; instead, they would be phased in over a five-year period.

We compliment the Senator for his perception of the public values served by navigation programs and for his concern that these services not be lost in a user charge program which is too hastily implemented or otherwise destructive to the navigation system. A serious problem remains as to whether the phase-in period is long enough to permit adjustments to compensate for the economic loss inevitably resulting from the economic dislocations and impairments of investment inherent in so radical a change in established commercial relationships.

We regret to note also that Amendment No. 32 would delegate to the Secretary of Transportation the same wide range of discretion in choice of user charge "mechanisms" as is provided to the Secretary of the Army in S. 810. Indeed, Amendment No. 32 would grant to the Executive Branch even broader discretion without adequate guidelines in allocation of Federal water resources costs to navigation and in adjusting charge levels on various waterway segments so long as the aggregate collections meet the specified levels. We consider it most unwise, if not unconstitutional, to confer upon any official of government such power over the economic future of American communities. These questions involve considerations of public policy which are legislative in nature. Congress is constitutionally obligated to provide unambiguous guidelines to implement its intent.

Amendment No. 32 would accompany the user charge program with expedited improvement of the waterway transportation system through such devices as administrative authorization of waterway improvements under appropriate guidelines. We consider this a constructive proposal. The slow pace of project authorizations in recent years has been a matter of grave concern within the industries we represent. Aside from the special legislation authorizing replacement of Locks and Dam 26 on the Mississippi River, there has not been a single new project authorization since September 1976.

Modal equity. Waterway user charges to enforce payment by commercial carriers of a fixed percentage of the Federal costs of the federally controlled navigation channels, standing alone, could undermine the competitive viability of large volumes of waterborne freight. Under existing law and policy, railroads own and control the rights-of-way over which they operate and are not required to cover any portion of the right-of-way costs in their rates competitive with water carrier rates. The inevitable consequence of such an arrangement is diversion of traffic from the mode with lower average costs — including right-of-way costs — to the higher cost mode, resulting of course in wastefully inefficient use of the Nation's transportation resources, and grave impairment of the water mode at a time when its capabilities are most urgently needed. Following the historic pattern of rail-water competition, once the competitive vigor of the water mode is sufficiently weakened, the railroads can be expected to raise their water-competitive rates to the maximum levels permitted by law and thus to exert a strong inflationary influence.

To avoid such a gross inequity and public injury, any waterway user charge should be combined with an appropriate charge or tax on railroads to recover the Federal costs of the massive subsidies to them or with a commensurate reduction in their Federal subsidies and subsidy-effect programs.

The relative degree to which various competing modes are subsidized is a complex issue. In recent years a great deal of data on this issue, some of it virtually worthless, has been put forward in connection with the waterway user charge debate. For example, a 1977 report by the Congressional Budget Office (C.B.O.) entitled "Financing Waterway Development: The User Charge Debate" analyzed modal subsidies relative to freight revenues, and this report figured prominentaly in the Congressional debate leading to adoption of the current waterway fuel tax which was levied in Public Law 95-502. A discussion of the fallacious reasoning and faulty conclusions surrounding the C.B.O. report is attached as Appendix C.

We are pleased to note that in its economic program this year, the Administration has also looked at the enormous operating subsidies enjoyed by rail transportation and offered recommendations affecting the rail mode which are perhaps as significant as those concerning the waterways. Thus, it proposes the sale of Conrail back to the private sector, and it views with alarm the current taxpayer subsidy (about $700 per year per rail employee) to the unwieldy rail pension program. It recommends repeal of scheduled increases in the pension plan "until the rail sector soundly finances their pensions."

We therefore hope that the Congress, balancing the equities and considering the importance of strengthening the viability of both modes, will not act on waterway user charges without concurrently examining in depth the Federal rail subsidy programs and either reducing them in an appropriate manner or imposing a suitable tax or charge on the railroads.

Waterways' multiple users. We are concerned also by the tendency of the measures before this Subcommittee to single out from among the many beneficiaries of multi-purpose water resources development projects only one group of users — commercial waterway carriers — from whom most if not all current and future Federal waterway costs would be recovered.

The dams on many of our inland rivers do help insure navigable depths. But, they also provide reservoirs of water which have been put to such uses as: cooling water for electric power generation, hydroelectric generation, farm irrigation, industrial water supply, dilution of waste water from municipal sewage treatment plants, municipal water supply, commercial fishing and recreational boating. The projects are often also managed so as to provide protection against flood damage, to enhance fish and wildlife propagation, to improve land values, and to encourage regional development. The system as a whole also provides important national defense benefits (which proved to be invaluable during World War II) and extensive regional development values.

Cost allocation. The crucial requirement, then, is to develop a sound method of allocating costs of facilities authorized for navigation among all the beneficiaries of such facilities. The methods proposed in the Administration's bill, S. 810, are inadequate. Purposes spelled out in authorizing legislation omit benefits accruing to other functions. Water supply benefits to municipalities and industries provided by the pools created by dams authorized for navigation are a prominent example. The assignment to navigation of 25 percent of the costs of the Mississippi River and Tributaries Flood Control Program is arbitrary. Assignment of costs on the basis of types of benefits resulting from the project should be adopted as the appropriate technique in the absence of compelling evidence for a different allocation method. Consistent application of the benefit taxation principle would require imposition of "user fees" on each of the beneficiary classes.

The difficulty of identifying Corps of Engineers' costs which are incurred solely for the benefit of commercial navigation stems from the multiple-purpose nature of many projects, from the fact that Congress over the years has employed waterway development as a means of meeting many worthwhile public goals (regional economic growth, national defense, wildlife enhancement, export trade expansion, natural resources development, etc.) not directly beneficial to bargeline operators, and from the fact that the "navigation account" has been rather loosely treated over the years. Because navigation expenditures have historically been non-reimbursable, many non-navigation expenditures which were felt at the time to be worthwhile were assigned to this account.

This tendency pervades in the pending legislation as well. For example, the Lower Mississippi River is naturally navigable. Its use by commercial navigation interests would be only slightly impaired if the Mississippi River and Tributaries Project were abandoned. The project is, in fact, a flood control endeavor. It consists of the maintenance of thousands of miles of levees, operation of diversion channels, river bank stabilization efforts, tributary river levee systems, and other structural devices designed to protect the populations of several states from devastating floods such as those which occurred in the late Twenties and mid-Thirties.

Dredging to enhance navigation and other navigation-related activities constitutes a miminal portion of Corps of Engineers' expenditures on this project. Yet, under S. 810, one-fourth of the costs of this project are arbitrarily assigned as "subject to recovery" through a system of user charges on commercial operations. We believe that a thorough and impartial examination of the operation of this project would disclose that far less than 25 percent of the total project expenditures are of actual benefit to inland waterway operators.

Similar distortions are present in the accounting for costs of many, many projects. In two appendices to this statement, we have examined some cost allocation difficulties and inequities which arise both from the Administration bill and from Sen. Domenici's amendment.

Appendix D examines the problem of "phantom users," i.e., the fact that the pending legislation compels the recovery from commercial navigation interests of costs assigned to a large number of projects through which waterborne cargo does not move.

Appendix E discusses the failure of current accounting systems, and thus of the pending legislation, to accurately and fairly identify that portion of the cost of multiple-purpose projects which actually enhances navigation.

The debate over user charges has long revolved around one central question: Is it appropriate for the Federal government to subsidize the navigation system? The Administration's 100 percent cost-recovery bill, based as it is upon an accounting system which arbitrarily overstates navigation costs, suddenly inverts the question. Is it appropriate for waterway carriers and shippers to subsidize the Federal government responsibilities?

"Navigation-related costs." Sen. Domenici's proposal in Amendment No. 32 that Federal costs be allocated for purposes of navigation user charge determination on the basis of "navigation-related costs" provides seriously inadequate guidance to the responsible administrator of the program. Reference to the Flood Control Act of 1936, for example, will disclose that adverse effects of flooding on navigation was the stated ground for extension of Federal power — under the Commerce Clause — to flood control, including local protection projects.

Low-flow augmentation may with sound reason be classified as "navigation-related" but it is really undertaken to enhance pollution abatement. Authority to assign all "navigation-related" costs to navigation for cost-recovery purposes would create a grave risk of overloading user charges with costs conferring only remote and insignificant benefits on navigation. It need hardly be added that recreational boating should, under these assumptions, pay its full share of the costs of specific navigation features, including recreational lockages.

To avoid oppressive and prejudicial charges for navigation use, guidelines for determining user fees must be precisely focused on benefits received by commercial navigation. From adoption of the benefit taxation principle, these taxpayers may legitimately expect a significant role in the process of project evaluation, design, construction, operation and maintenance. Their natural and proper disposition would be toward a strongly commercial emphasis. They would, it is to be assumed, advocate that projects be built in areas where traffic is already concentrated along mature waterways. The developmental and other public values of waterway improvements would have no place in such a scheme of things.

Public policy goals. It is to be hoped that, in its consideration of cost-recovery user charge legislation, Congress will recognize and evaluate the risks involved for achievement of public policy goals. The function of community and industrial development provided by waterway improvement cannot be fulfilled as a narrowly commercial undertaking. Too much time must elapse between the improvement outlays and the full realization of traffic growth with the associated flowering of industrial activity and community welfare. Regions where growth has stagnated, in spite of rich local resources and manpower, promise abundant return on Federal investment in waterway facilities in the form of community growth and a mounting contribution of production and markets to the Nation's economy, but these are only long-term expectations.

Should the costs of providing and maintaining facilities which support these varied purposes be charged solely to one group of designated beneficiaries, i.e., the owners and operators of commercial vessels? To do so may well necessitate the curtailment of important waterway projects which serve vital purposes to the Nation or to specific regions, but which occasion little use for commercial navigation. This is a trade-off which only the Congress should make.

If the total Federal investment in construction, operation and maintenance of waterways is to suddenly be recovered from a narrowly defined group of private vessel operators, it is not difficult to foresee a strident clamor from these heavily taxed "beneficiaries" to dramatically reshape the waterways system according to their own immediate and private needs. Important beneficial aspects currently incorporated in multi-purpose projects — such as flood protection, water supply, and stream flow augmentation to cite a few — might well be deleted from future projects if navigation users alone are to bear all the costs.

The primary Federal role. Further, if commercial carriers are commanded to directly finance river and harbor dredging, it is quite likely that they would demand a pre-emptive voice in the design and execution of such projects. In some instances it is conceivable that they would demand that private contractors chosen by them, rather than the Army Corps of Engineers, carry out actual construction. If it is likely that a large portion of the Army's engineering and construction capability were idled as a result, what then would be the effects upon governmental efficiency — a concern which, after all, underlies the user charge push? What would be the impact on defense preparedness and the ability of the Corps of Engineers to pursue its military engineering role?

In summary, the new Administration initiatives have escalated the debate dramatically from the Congress' declaration less than three years ago that commercial carriers on the inland waterways should make some direct contribution to the costs of maintaining navigation, and that the impact of such charges should be carefully monitored in terms of modal equity, regional dislocation, industrial revitalization, transportation efficiency, and many other factors.

It is unfortunate that Congress is now being asked to make judgments as to forms and levels of waterway user charges — before it has adequate information on impacts, on costs, on equity considerations, and on which user charge mechanism(s) should be utilized. We urge the Congress to take action, without delay, to obtain such information and to pay close attention to what it reveals so that a realistic Federal user charge policy can be developed — a policy which is workable, equitable and in the public interest.

It cannot be punitive. It must not unduly burden major industrial shippers, the agricultural economy, or interior river valleys. It should recognize the many public values of navigation programs. And such a policy, if it is to succeed, must help to expedite needed waterway improvements which enhance the efficiency of the American transportation system.

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APPENDIX A

STATUS OF NON-FEDERAL STUDIES OF USER CHARGES IMPACTS AS OF JUNE 1981

State Or Locality	Study Initiated	Agency in Charge of Study Project	Agency Conducting The Study	Study Products Available
Arkansas	7/80	Dr. Grant M. Davis, University of Arkansas	Dr. Grant M. Davis University of Arkansas	9/81
Illinois	11/80	Marketing Division, Illinois Department of Agriculture	Dr. Lower Hill, Ill. U. Dr. Dennis Conley, Ill. U. Dr. Walter Willis, S.I.U. at Carbondale	9/81 9/81 9/81
Kentucky	2/80	Kentucky Port and River Development Commission	Dr. Charles Renfro, University of Kentucky Research Foundation	9/81
Minnesota	5/80	Multi-Modal Planning Office, Minnesota Department of Transportation	Mr. N. W. Newstrand of Minnesota Department of Transportation	6/81
Nebraska	1/81	Missouri River Marketing Office	Mr. John C. Welding University of Nebraska	9/81
Ohio River Basin	6/81	Ohio River Basin Commission	Consad Research Corporation	9/81
Oklahoma	1/81	Waterway Division State Industrial Development Dept.	Dr. Larkin Warner Oklahoma State University	7/81
Pittsburgh	10/80	Waterways Assn. of Pittsburgh	Consad Research Corporation	6/81
St. Louis	1/81	Bi-State Development Agency	Dr. Lonnie Haefner Washington University, St. Louis, Missouri	9/81
Sioux City	6/80	Siouxland Interstate Metropolitan Planning Council	Siouxland Interstate Metropolitan Planning Council	6/81
Texas	8/80	Texas Department of Highways and Public Transportation	Texas Transportation Institute	8/81

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APPENDIX B

IMPACT OF SEGMENT-SPECIFIC USER CHARGES ON DEVELOPING WATERWAYS: THE ARKANSAS AS A CASE STUDY

Segment-specific user fees, as specified in both S. 810 and Amendment No. 32, can be particularly burdensome to relatively new waterways, especially if the charge is assessed all at once — before the segment has developed its full traffic potential. Because traffic patterns have not fully developed, costs are spread over a limited traffic base and the unit charge is higher than it would be when the waterway has "matured." But, the waterway will never "mature" because its growth in usage will be stymied by the high unit cost of the user charge at the outset.

Instead of traffic growth, a segment-specific user charge would cause a cycle of rising tolls and diminishing traffic until the traffic disappeared entirely or until it leveled off with a few dedicated or captive users waiting only to amortize their investments before they join the exodus from the waterway.

The preliminary results of an examination of the effect of segment tolls on the McClellan-Kerr Arkansas River Navigation System seem to confirm these observations about the consequences of segment-specific user charges. This waterway has been open for only 10 years, and the traffic level has not yet grown to the point where it can generate enough revenues to meet all O&M costs. A charge of about 10 mills (or 1¢) per ton-mile would seem to be needed to meet the projected 1982 level of Federal expenditures with the present volume of traffic. With the addition of a segment toll of 1 mill on the Lower Mississippi River, this would raise rates by about $5.00 per ton on commerce moving from the Tulsa Port of Catoosa to New Orleans.

Coal and grain, which accounted for more than 1.5 million of the 4.4 million tons of traffic in 1980, are particularly competitive movements. Barge rates for grain moving to New Orleans would be increased by a segment toll to a point where they would probably exceed the Santa Fe Railroad's recently announced 60-car rate to the Gulf of 53¢ per bushel, or about $17.66 per ton. About 80 percent of the region's coal already moves by rail, which indicates the strong competitive position that rail carriers already have in moving that commodity. Coal enterprises in the area operate on very thin margins and coal shippers report that differences of as little as 50¢ per ton are critical in their subcontract negotiations. There is little reason to doubt that segment charges would cause the diversion of some of that coal and grain traffic to the railroads.

As coal and grain traffic leaves the waterway, the remaining carriers would find the segment toll rising to about 1.5¢ per ton-mile. Such an increase would not be likely to drive the steel-using industries off of the waterway in the short run. It would make economic sense, however, for them to move all of their future operations to the Mississippi River where they could continue to enjoy the benefits of water rates without incurring the high segment tolls of the Arkansas River. Over time, this will bring about a reduction in the shipment of steel on the Arkansas, a delayed but very real response to the high segment toll.

Residual fuel oil shippers would continue to use the waterway, even with the high segment toll, because of the cost advantages of bulk movement by barge. Like the steel-using industries, however, these oil-gathering businesses would have a strong financial incentive to move their operations to the Gulf Coast or to the Mississippi River where they could enjoy lower barge rates. In time, the volume of oil moving on the waterway would be diminished appreciably by the unequal burden of the high-level segment toll which would afflict the Arkansas River.

These traffic losses would have the effect of driving up the segment toll to even higher levels and of offsetting the gains in traffic which could be expected from economic growth with the losses in traffic which are occasioned by the rise in the segment toll. The sunk investments in water transportation made by the Federal government and by non-Federal public agencies and private investors will return much less than would have been the case had the user charge been collected in a less damaging manner. These economic losses and associated losses in employment, taxes and land values could well exceed the declining annual subsidy which would be required to support those navigation functions until they reach maturity. With user charges set at reasonable levels — but less than at segment-specific cost recovery — the Arkansas Waterway could be expected to generate increasing volumes of waterborne freight, providing steady gains in the regional economic activity and, at the same time, returning a rising level of waterway user charge collections.

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APPENDIX C

THE CONGRESSIONAL BUDGET OFFICE'S MEANINGLESS COMPARISON OF FEDERAL SUBSIDIES TO TRANSPORTATION MODES

In recent years, the stream of questionable data surrounding the waterway user charge debate has grown considerably. One example is a widely quoted comparison of modal subsidies relative to modal revenues published in July 1977 by the Congressional Budget Office (C.B.O.) entitled "Financing Waterway Development: The User Charge Debate."

The C.B.O. study calculated various Federal subsidies to freight and passenger modes, estimated the revenues of these modes, and then developed a modal comparison index indicating the relationship of subsidy to revenues. For freight movements by rail and water in Fiscal Year 1975 the calculations were as follows:

SUBSIDIES AS A PERCENT OF EXPENDITURES BY USERS

	For FY 1975
Inland Waterways	44
Freight Railroads	2

From this comparison, C.B.O. concluded that the Federal subsidy to waterways was disproportionately high and should be recovered through user charges. The study was frequently cited during the 1977-78 user charge debate which ended with enactment of the Inland Waterways Revenue Act (Public Law 95-502). Sen. Pete V. Domenici (New Mexico) repeatedly stressed the significance of these comparisons.

But, do the figures truly prove that waterways are disproportionately subsidized? Or, do they instead simply reconfirm what objective observers have known all along — that waterway transportation is extremely efficient, realizing substantial savings as a result of technology and scale, with substantial savings in transportation costs being passed through to the American public in the form of low freight rates.

There are, of course, numerous questions to be raised about the basis of C.B.O.'s calculations (Were current earnings from historic Federal land grants to the railroads factored in? How was the Federal subsidy to the rail pension program treated?, etc.). But, for the sake of argument, let's defer those questions momentarily and simply accept C.B.O.'s numbers at face value.

Then, let's assume that all factors remain constant (the subsidy programs which C.B.O. did use in its calculations, the total freight moved, the modal shares of the market, etc.) except for one — freight rates. Let's assume that waterways — as a result of greed, mismanagement, inefficiency, captive markets, or whatever — suddenly quadrupled their rates, i.e. charges which their customers must pay. The comparisons, using C.B.O.'s methodology, would be as follows:

SUBSIDIES AS A PERCENT OF EXPENDITURES BY USERS

	For FY 1975
Inland Waterways	11
Railroads	2

Waterways would suddenly look much more favorable in C.B.O.'s eyes. In short, if waterways were less efficient, if they charged their customers more, if they declined to pass through to consumers the savings resulting from their inherent advantages, then C.B.O. would have much less of a case for waterway user charges using its methodology of comparing modal subsidy as a percentage of freight revenues.

Let us carry on the calculations one step further and assume that, while bargelines were hypothetically growing less efficient and therefore more expensive to employ for the movement of freight, railroads were moving in precisely the opposite direction. Let's assume that railroads modernized, solved some of their massive labor problems, cut out unprofitable routings, improved their management, adopted new technologies, and took other steps which led to better utilization of capital, more efficient line hauls, etc. Let's assume, further, that the results of these advances were passed through to rail customers in the form of lower freight rates.

For the sake of comparison, let us say that rails were able to charge just one-fourth as much — at the same time that bargelines were forced to quadruple their rates because of hypothetical losses of efficiency.

Now, under this scenario, the C.B.O. comparisons would read like this:

SUBSIDIES AS A PERCENT OF EXPENDITURES BY USERS

	For FY 1975
Inland Waterways	11
Railroads	8

Thus, in the view of C.B.O., railroads would be less entitled to Federal support if they grew more efficient and productive. The argument for taxing barges would be greatly diminished if they were less efficient, if they pocketed their subsidy, and if they charged their customers higher rates.

As these figures show, the methodology employed by C.B.O. in the 1977 study is absolutely worthless as a measure of the relative subsidy enjoyed by competing modes or of the relative merits of modal subsidies. In the first place, C.B.O. appears to have under-estimated Federal railroad subsidies and overestimated Federal waterway subsidies. Furthermore, as Sen. John C. Danforth (Missouri) pointed out on the Senate floor during a 1977 user charges debate, it is "not relevant" to compute subsidy as a ratio or as a percentage of revenue. He went on to illustrate his point with a simple example:

"Supposing I have $1 in my pocket and Senator Stevenson has $20 in his pocket, and the Senator from New Mexico gives each of us $1. The Senator from New Mexico has given me 100 percent of what I had but he is giving Senator Stevenson 5 percent of what he had. It is not a meaningful figure."

The higher a mode sets its freight rates the more favorable it will appear in C.B.O.'s methodology. The more cost efficient a mode is, and the more it passes its efficiency through to customers in the form of lower rates, the less favorable the mode will appear in C.B.O's comparisons.

The C.B.O. calculations did not prove what C.B.O. and the study's promoters have claimed — that waterways are disproportionately subsidized relative to rail. What the C.B.O. figures actually did show is that waterways are substantially more efficient than railroads, and that these efficiencies result in the much lower freight rates charged by bargelines.

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APPENDIX D

ILLUSTRATING THE NEED FOR ACCURATE COST ALLOCATION: NAVIGATION PROJECTS COSTING $50 MILLION ON WHICH NO COMMERCE MOVES!

The Army Corps of Engineers, in cooperation with the Office of Management and Budget and other Federal agencies, has developed exhaustive project-by-project cost data for fiscal years 1977 through 1982. Amounts which would be "subject to recovery" under the provisions of S. 810, the Administration's shallow-draft user charge proposal, have likewise been identified.

The data, which we understand have been made available to this Subcommittee, appear to be the most current and most reliable numbers yet produced in the perennial debate over waterway user charges. But, the data also illustrate the difficulties of attempting to identify true navigation costs in a program as diverse and multiple in purpose as the Corps' water resources management activities.

For example, we attempted to spot check the extent of navigational use of projects for which costs in the Corps' data were identified as "subject to recovery" from commercial operators. We did this by consulting another Corps of Engineers' report, "Waterborne Commerce of the United States," an annual tabulation of commercial cargoes moving along each waterway segment and through each navigation lock. We consulted the 1978 issue, the one most recently published.

Our cursory spot check uncovered 56 projects for which "navigation" costs would be "subject to recovery" under S. 810, but on which no commercial cargo moved during the entire year of 1978. The total amount of O&M expenditures which would be "subject to recovery" from the phantom users of these 56 projects under the provisions of S. 810 exceeds $4 million per year.

Our list of these projects, and the recoverable costs which the Corps assigned to them in accordance with S. 810, appears on the last page of this appendix. Since this list was compiled, we have learned that a thorough check of the Corps' cost data has revealed a total of some 145 navigation projects which did not account for any waterborne commerce. What's more, these projects cost the Federal government a total of $50 million annually!

By way of explanation, it should be noted that these projects generally serve the needs of commercial fishing, shrimping, recreational or passenger vessels along the seacoasts or around the rim of the Great Lakes. Included are a number of small shallow-draft coastal harbors which are classified as harbors of refuge.

The question posed by S. 810 is no longer one of whether the Federal government should subsidize navigation. The question instead becomes: Should shallow-draft commercial operators be compelled to subsidize non-commercial waterway projects? This basic flaw in the Administration proposal — its failure to clearly define the commercial shallow-draft navigation system and the costs attributable to commercial operations — is also present in Amendment No. 32.

Reliance upon the old system of "navigation accounts" simply won't work. Perhaps because the navigation account has been non-reimbursable for all these years, many non-navigation and/or non-commercial expenditures, no doubt all of them serving worthwhile purposes, have managed to get hidden in the navigation account.

Attachment:
Table — "Navigation Projects Having No Commercial Traffic"

A RANDOM SELECTION OF NAVIGATION PROJECTS SUBJECT TO COST RECOVERY ON WHICH THERE WAS NO WATERBORNE COMMERCE IN FY 1978

Segment[1]	Navigation Project[1]	Type of Traffic[2]	Subject to Recovery[1]
5	Appalachicola Bay, FL	Fish, shellfish, ice	$ 83,700
5	Bon Secour R., AL	Fish, shellfish, ice	32,900
5	Cadet Bayou, MS	Fish, shellfish	249,600
5	Panacea Harbor, FL	Fish, shellfish, ice	24,800
5	Perdido Pass Ch., AL	Ice	347,900
25	Barcelona Harbor, NY	Fish	10,600
25	Vermillion Harbor, OH	Fish	68,400
26	Sebewaing R., MI	Fish	122,400
27	Algoma Harbor, WI	Fish	102,600
27	Grand Traverse Harbor, MI	Fish	79,200
27	Saugatuck Harbor, MI	Fish	100,800
28	Cornucopia Harbor, WI	Fish	72,900
28	Eagle Harbor, MI	Fish	4,500
28	Knife River Harbor, MN	Fish	900
28	Port Wing Harbor, WI	Fish	10,800
29	Andrews River, MA	Not reported	52,300
29	Branford Harbor, Conn.	Not reported	800
29	Chatham Harbor, MA	Fish	191,300
29	Cohasset Harbor, MA	Not reported	121,200
29	Edgartown Harbor, MA	Passengers	1,200
29	Green Harbor, MA	Fish, shellfish	2,300
29	Hampton Harbor, N.H.	Passengers	13,600
29	Mianus River, Conn.	Not reported	23,100
29	Provincetown Harbor, MA	Fish, shellfish	20,600
29	Rockport Harbor, MA	Fish, Shellfish	105,000
29	Saco River, ME	Not reported	379,600
29	Newbury T.P. Harbor, MA	Fish, shellfish	4,100
29	Pawcatuck River, RI, Conn.	Not reported	16,700
29	Plymouth Harbor, MA	Fish, shellfish	16,700
29	Stony Creek, Branford, Conn.	Fish shellfish	168,400
29	Wellfleet Harbor, MA	Passengers	21,700
29	Bonum Creek, VA	Not reported	3,800
29	Fishing Bay, MD	Fish, shellfish	106,700
29	Goose Creek, MD	Not reported	7,500
29	Island Creek, MD	Not reported	1,200
29	Little Wicomoco River, VA	Fish, shellfish	120,800
29	Lower Thrfre, Deal Isld, MD	Shellfish	6,100
29	Upper Thrfre, Deal Isld, MD	Shellfish	2,400
29	Neal Sound, MD	Fish, shellfish	6,400
29	Northeast River, MD	Fish, shellfish	2,300
29	Ocean City Hbr, SnPxent, MD	Fish, shellfish	195,300
29	Parish Creek, MD	Not reported	3,800
29	St. Catherine Snd, MD	Fish, shellfish	6,200
29	St. Jerome Creek, MD	Fish	4,700
29	St. Peters Creek, MD	Not reported	3,700
29	Island Crk, St. George Isl., MD	Not reported	6,900
30	CH FM BK SD LKT BT, NC	Fish	83,700
30	Lockwd Folly River, NC	Fish, shellfish	156,600
30	Ocracoke Inlet, NC	Fish, shellfish	20,700

Segment[1]	Navigation Project[1]	Type of Traffic[2]	Subject to Recovery[1]
30	Rollinson Ch., NC	Fish	1,800
30	Silver Lake Harbor, NC	Passengers	29,700
30	Stumpy Point Bay, NC	Fish, shellfish	19,800
30	WW Conn Pamli Sd Beau Hbr	Fish, shellfish	25,200
32	Skamokawa Creek, WA	Not reported	21,000
33	Noyo River Harbor, CA	Fish, shellfish	260,700
34	San Rafael Creek, CA	Fish	506,700

Sources:

[1] From "Shallow-Draft Navigation Cost-Recovery Analysis, Operation and Maintenance Expenditures, Fiscal 1977-Fiscal 1982," Office of the Chief of Engineers, Army Corps of Engineers, Washington, D.C., May 1981.

[2] From "Waterborne Commerce of the United States, Calendar Year 1978," Water Resources Support Center, Army Corps of Engineers, Fort Belvoir, Virginia, September 1980.

APPENDIX E

CORPS' COST ALLOCATION STUDIES POINT UP THE URGENT NEED FOR MORE ACCURATE DATA ON SHALLOW-DRAFT NAVIGATION COSTS

From 1824 until October 1980, Federal expenditures for construction, operation and maintenance of navigation facilities were all non-reimbursable. Navigation programs have usually been part of large multiple-purpose water resources projects which have contained other non-reimbursable accounts such as flood protection.

Even in instances when a project was authorized solely for navigation purposes, the design and construction — and consequently the project costs — were often skewed to serve many other purposes which, though they may have been publicly worthwhile, were nevertheless unneeded and unused by commercial vessel operators. Examples include scenic overlooks at locks, operation of visitor centers, visitor protection, identification and administration of cultural resources, dredging of recreation boat ramps and channels, recreational lockages, preparation of master plans, management of government lands for fish and wildlife purposes, downstream wildlife mitigation, water supply, flood protection, streambank stabilization, etc.

If projects were designed and constructed solely upon the basis of the ability and willingness of commercial bargelines operators to pay, many of these features would no doubt be eliminated or drastically scaled back.

The Army Corps of Engineers recently undertook three case studies in the Pittsburgh, St. Paul and St. Louis Districts in an attempt to develop cost allocation formulas which might be applied systemwide and to ascertain problems inherent in attempts to identify project expenditures which should be viewed exclusively as navigation costs. The findings are contained in a Corps report released October 5, 1980, entitled "Navigation Cost Allocation Study: Main Report."

Among the findings which bear directly on the current discussion are these:

- There are at least eight user categories, or beneficiaries, of "navigation" projects. These include (a) Commercial Navigation, (b) Power, (c) Recreation, (d) Flood Control, (e) Water Quality, (f) Water Supply, (g) Fish and Wildlife, and (h) Environmental Quality.
- Corps Districts incur substantial non-commerical navigation costs in the construction, operation and maintenance of navigation projects. Although the purpose of this study was not to develop accurate numbers, it appears that the non-commercial navigation costs may average as much as 25-30% of total "navigation" expenditures.
- There was little guidance or precedence outside of Corps of Engineers circles that was transferrable to this effort. Navigation cost allocation differs from highway and airport/airway cost allocation in that there is a wide diversity of waterway users compared to similar users of facilities designed for other modes.

We commend this study to you, in its entirety, as a good starting reference from which the Federal government may begin to get an accurate handle on the true costs which might equitably be attributed to the commercial movement of waterway cargoes.

Once the navigation system is more accurately defined, and once policymakers begin pursuing cost recovery from non-commercial users and beneficiaries of "navigation" projects with the same zeal with which the current thrust is aimed at bargeline operators, then we believe the stage will have been set for meaningful discussion of possible increases, and changes in form, of the waterway user charge program initiated by Congress with passage of the Inland Waterways Revenue Act of 1978 (Public Law 95-502).

# # #

INLAND RIVERS PORTS & TERMINALS, INC.
P.O. Box 863 Central Station • (314) 241-7354
St. Louis, Missouri 63188

STATEMENT
BEFORE
U.S. SENATE SUBCOMMITTEE ON WATER RESOURCES
JUNE 16, 1981

Mr. Chairman, my name is Milton Barschdorf. I am the Port Director, Port of Greenville, Mississippi, and Chairman of the Board, Inland Rivers Ports and Terminals, Inc. I feel it a great honor and privilege to be given this opportunity to appear before you in behalf of the Membership of the Inland Rivers Ports and Terminals, Inc., a non-profit organization made up of port and terminal operators representing the many navigable river basins of the Nation including those of the Mississippi River system: Lower Mississippi, Arkansas, Ohio, Tennessee and Cumberland, Missouri, Illinois and Upper Mississippi.

Results of a recent survey undertaken by our organization covering 1416 known terminals located on the shallow draft inland waterways of the United States representing a cross section of types both in cargo handling and Terminal construction reveal a non-federal fixed facilities investment of over $5½ billion.

There are over 60 ports and 1100 terminals, public and private, located on the Mississippi River and tributaries system alone serving directly an area covering some 19 States embracing some of the most highly productive agricultural and industrial complexes of the United States.

Our Association recognizes that the ports and terminals of this Nation's network of inland waterways are the agencies responsible for providing the services which support and sustain the water transportation industry and the transfer facilities for the exchange of cargo from one mode of transport to another.

We are dedicated to provide these services to all modes of transportation in the most effective and efficient manner with maximum benefits accruing to the public, the shipper, and the national economy.

Our objectives are intermodal in nature, supporting the proposition that it is vital to the national interest to provide for the most efficient transportation system possible through utilization of each mode where it contributes most efficiently and effectively in the overall movement of goods from shipper to receiver.

The passage of the Inland Waterway Revenue Act of 1978 (P.L. 95-502) which establishes a user charge in the form of a fuel tax on the towboat owners operating on the inland shallow draft waterway system is certainly counter to our objectives and most unjust and discriminatory in that it singles out only one segment of the Nation's navigable channels for application and does so without benefit of a detailed economic impact study to justify its enactment or a detailed analysis of its effects upon the competitive interrelationships of the transportation modes.

The proponents justify their support of a fuel tax and user charges on the basic principle that the beneficiaries of federally financed projects should pay the costs.

We wholeheartedly agree, provided the beneficiaries can be clearly identified and it is applied fairly to all beneficiaries.

Others interested in the healthy growth of our Nation's inland waterway systems testifying before this Committee will expand further on the adverse impact of the various cost recovery user charge proposals now pending before Congress and I would like the record to show that we support their views.

Our testimony will be confined to a proposal which will provide a just and reliable means for funding the basic construction and maintenance needs of the transportation modes and a fair application of user charges where necessary.

As stated, we agree wholeheartedly with the premise that the beneficiaries of Federal funded projects should pay the cost.

The navigable waterways, railroads, highways, airways, and pipelines all contirbute to the movement of the Nation's products. Each mode with possible exception of pipelines also is the beneficiary of some subsidization by the Federal government. Each contributes to the economic well being of various areas of the Nation and also to the healthy growth of our country's trade in the world markets. All of these factors must be weighed carefully, intelligently, and with detailed research data to support forthcoming conclusions and recommendations on any cost recovery or cost sharing program.

One area of direct dollar benefit to the Federal government which is clearly identifiable is the annual receipts of the Bureau of Customs which for Calendar Year 1979 was $8.5 billion. Of this total only $450 million was required for the operation of the Customs Bureau leaving over $8.0 billion going into the Federal treasury.

We feel it only fair that these net customs receipts be credited to the various modes in proportion to their contribution to the overall movement of the Nation's products in the export/import trade before any determination of the amount of fuel taxes, user charges, congestion fees, segment charges, or lockage fees is judged to be necessary in compliance with the principle of "cost recovery" by the Federal government.

We have undertaken some detailed research in this area and find that the proportionate contribution by each mode to the total customs receipts is in the order of 28% rail, 28% highways, 27% waterways, and 17% air.

By Section 32 of Act of August 24, 1935 as amended, the Department of Agriculture receives 30% of the customs receipts specified to be used for the promotion of agricultural exports.

Noting this, and allowing 10% of the Customs receipts to flow into the Federal treasury, the allocation to the respective modes would be 17% rail, 17% highways, 16% navigable waterways and 10% air fields.

Summarizing this breakdown and applying it to the 1979 Customs receipts would have resulted in the following allocations:

Customs Bureau of Operations	$450 million
Department of Agriculture	2.4 billion
Rail	1.36 billion
Highways	1.36 billion
Navigable Waterways	1.28 billion
Air Fields	800 million
To General Revenue Fund	850 million

The revenues thus allocated would be placed into funds specifically earmarked for use in the construction and maintenance of each mode's right-of-way. The railroad, highway and air portion would go into funds established in the Department of Transportation and the navigable waterways fund in the Department of the Army.

By placing the annual customs receipts allocated to each mode in a fund as provided for in the proposed bill, there will be savings in much time and expense by not having to go through the annual authorization and appropriation procedures. It would also make for more efficient planning of work programs from year to year.

Should the amount allocated from customs receipts fall short of covering the Federal expenditures made for each mode, the deficit can then be recovered by an appropriate user charge or tax.

We have put this proposal in the form of a draft bill which is included as an inclosure to this testimony.

Thank you very much for giving me this opportunity to appear before you.

Milton P. Barschdorf
Chairman of the Board

INLAND RIVERS PORTS & TERMINALS, INC.
P.O. Box 863 Central Station • (314) 241-7354
St. Louis, Missouri 63188

DRAFT OF PROPOSED BILL

Section 101. The Inland Waterways Revenue Act of 1978 is hereby repealed.

Section 101. Short Title

This Act may be cited as the "Multimodal Transportation Improvement Act of 1981."

Section 103. Findings and Purposes

The Congress finds that major expansions in the nation's transportation system and improvements in its efficiency, as well as development of new transportation technologies, extended application of existing technologies, system restructuring, and geographical reorientations will be required in the years ahead in order that the multimodal system may adequately serve the growing and changing transportation needs of the general public, agriculture, commerce and industry, and may play its essential part in furtherance of national objectives of high priority, including without limitation, national security, energy self-sufficiency and conservation, restraint of inflation, economic growth, reduced unemployment, and environmental enhancement. Achievement of these objectives will necessitate large expenditures of public funds during a period when rising costs of other governmental services and programs will be placing continuously rising demands upon general revenues.

It is necessary, therefore, that insofar as practicable supplemental sources of revenue be provided to insure adequate funding of the basic improvement and maintenance requirements of the several transportation modes.

The Congress finds that appropriate criteria for the selection of a supplemental revenue source, or sources, for this purpose are:

Encl.

First, that the source be a direct recipient of benefits from each of the modes;

Second, that such provision of funds will not cause significant economic dislocation or disruption of competing trade patterns or other serious economic or social harm; and

Third, that such provision of funds will contribute significantly to high priority national policy objectives or interests.

The Congress further finds that the nation's customs receipts fully meet the foregoing criteria since these receipts are derived in large measure from the transportation modes which generate and sustain the movement of the export-import cargo among our partners in world trade, and that such receipts should be availed of as a supplemental revenue source for funding improvement and maintenance of the several transportation modes.

Such funding, also, when allocated to the several modes only to the extent practicable, unlike direct impositions of taxes (whether in the form of user charges or otherwise) upon the several modes, would have no significant tendency to disrupt competitive trade patterns, to impair agricultural and industrial employment, productivity and incomes, substantially to injure regional economies or to retard their development, or to create inequities among significant economic interests.

Transportation affects fundamentally the Nation's integrity, quality of life, security and progress, as well as every facet of the Nation's economic and social life and aspirations, all bearing directly upon the attainment of a wide vareity of public policy goals and characterized by complex relationships, both complementary and competitive, among the modes. It is of the highest importance, therefore, that implementation of such allocation of revenue source be effectuated on a proportionate and coordinated basis so as to achieve essential objectives without major disruptions in relative competitive positions among various modes.

Section 104 (a). The annual duties collected by the United States Customs Bureau represent revenues generated by virtue of the availability of adequate means of transport by water, road, rail and air. The proportionate contribution by each mode is determinable from records maintained by the Customs Bureau. In 1977, for example, total duties collected were: cargo from vessels - $2,823 M, cargo from surface carriers - $1,569 M, and from air $895 M. These figures can be further broken down to: 26.7% by water, 28.2% by rail, 28.2% by truck and 16.9% by air.

Section 104 (b). Since a proportionate part of these customs' revenues is committed to the Department of Agriculture for export promotion (30% of customs receipts--Sec. 32 of Act of August 24, 1935 as amended) the maximum available for allocation to the transportation modes is 70%.

Section 104 (c). Total customs duty collections for 1979 were $8.5 billion. Total cost of operation of the Customs Bureau was $425 million leaving over $8 billion net revenues over and above cost of operations. Assuming an allocation of this net revenue of 17% to rail, 17% to highways, 16% to navigable waterways and 10% to air fields, this would leave 40% to cover the commitment to the Department of Agriculture (30%) and a reasonable contingency amount (10%) to cover unforeseen fluctuations in revenue sources. Allocations to the various modes in 1980 would have been as follows:

Customs Bureau Cost of Operations---$450 million
Department of Agriculture----------- 2.4 billion
Rail-------------------------------- 1.36 billion
Highways---------------------------- 1.36 billion
Navigable Waterways----------------- 1.28 billion
Air Fields-------------------------- 800 million
To General Revenue Fund------------- 850 million

Section 105 (a). In conformity with the foregoing analysis there is hereby created an allocation of the net revenues collected annually by the United States Customs Bureau for distribution to the various transportation modes as follows:

Railroads	17%
Highways	17%
Navigable Waterways	16%
Air Fields	10%

Section 105 (b). The revenues allocated by subsection (a) shall be transferred to the appropriate agency fund specifically earmarked for expenditure as budgeted annually on the following items only:

Railroads: for road beds, rail bridges, and rights-of-way construction and maintenance.

Highways: for highways and bridge construction and maintenance.

Navigable Waterways: for channels, locks and dams construction and maintenance.

Section 106. There are hereby created the following Construction and Maintenance Funds in the agencies specified for the deposit of the funds allocated in subsection 105 (a) and (b):

Railroads: Railroads, rails and bridges Construction and Maintenance Fund, Department of Transportation.

Highways: Roadways and bridges Construction and Maintenance Fund, Department of Transportation.

Navigable Waterways: Channels, locks and dams Construction and Maintenance Fund, Department of the Army.

Air Fields: Runways Construction and Maintenance Fund, Department of Transportation.

Section 107. Nothing herein contained shall limit the authority of Congress to appropriate funds for the use, benefit or improvement of any such transportation modes from the general revenues nor to limit its discretion with respect to the form, manner, or amount of assistance to the respective modes, whether in the form of provision for improvements to rights of way, or new rights of way, direct grants, investments in preference shares or other securities, loans, loan guarantees, direct outlays for operation and maintenance or otherwise; provided, however, that in providing assistance to the several modes, no preference shall be accorded to any mode by reason of the proportionately larger balance that might remain to its credit in the account of such mode.

Section 108. This Act shall become effective on January 1, 1982.

STATEMENT OF

LEWIS T. HARDY

SENIOR VICE PRESIDENT
MARKETING-DISTRIBUTION
AND
VICE CHAIRMAN OF THE BOARD

HARDY SALT COMPANY

ST. LOUIS, MISSOURI

SUBCOMMITTEE ON WATER RESOURCES

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

UNITED STATES SENATE

WASHINGTON, D. C.

JUNE 1981

Per the invitation of Senator Stafford, Chairman of the Committee on Environment and Public Works, we are pleased to submit our thoughts on Senate Bill 810.

Our company's headquarters are in St. Louis, Missouri and we have salt plants at Williston, North Dakota and at Manistee, Michigan. From these two plants we ship about 350,000 tons per year by rail and truck primarily to states in the upper Midwest and Northwest.

As we testified in 1976 before the Senate Public Works Committee, we are in favor of recovery of not only the operating and maintenance costs of the inland waterway system, but the cost of new construction as well. We take this position for two good and valid reasons. First, it affects our business and, secondly, we think it is sound policy on the part of the United States government.

First, let's talk about our business. This subsidy of the barge line operations has and continually materially affects our business as freight is a very important factor in the distribution of our relatively inexpensive product. Freight amounts to from 25% to 50% of the net sales dollar. Over the past 20 years the Michigan salt producers' share of market has been slashed from a high of 22% to less than 7% (1979) of the total domestic consumption of dry salt. During this same period, Louisiana salt producers increased their share from 16% to 31% of the total market. Thus, business has been taken away from us in our normal marketing area primarily due to the unfair subsidy of our competitors' freight in moving their salt up the inland waterway system.

In 1974 imported solar salt was also introduced into the marketplace coming by ship from the Dutch West Indies to New Orleans, transferred to barges and then up the inland waterway system into the heartland of our market. This imported solar evaporated salt is now being sold not only in Illinois and Wisconsin, but also in Michigan and even in the town of Manistee where our major salt plant is located. This foreign salt is moving up the inland waterway system via barges subsidized not only by the American taxpayer, but by our own employees as well and others working in U. S. salt plants. Some jobs have been lost and many more are jeopardized. Overall U. S. imports have increased from less than 1-1/2% in 1954 to well over 10% in 1979 in this 25 year period of the total U. S. dry salt usage.

We strongly object to the use of our taxes to subsidize the freight of our domestic Louisiana salt competitors and, even more so, the subsidy now spreading to unfairly permit imported foreign salt to compete in the upper Midwest. The future of our company and the security of our employees' jobs are being threatened by the inroads being made by subsidizing freight on barge loads of salt moving up the Mississippi River inland waterway system.

Moreover, this continual subsidization of barge transportation takes business away from the railroads forcing them into abandoning more and more branch lines serving rural America throughout our entire marketing area where there are many branch lines in small towns. As these lines are abandoned our customers are forced to rely on truck delivery from the some 50 odd barge terminals throughout the inland waterway system. This, again, adversely affects our business.

In addition to be in favor of S.810 for the obvious business reasons stated above, we also are very much in favor of this Bill because we feel it is in the best interest of the United States. What better way to cut expenses than to force those who are able to pay to reimburse the federal government for services rendered through user fees or some other method. Certainly those able to pay for government services should do so and this Bill S.810 provides that the Secretary of the Army in consultation with the Secretary of Transportation would prescribe a system of user fees to be levied on commercial waterway transportation on the inland waterway system. Perhaps some combination of fuel charges and lockage fees could be devised that would fairly apportion the cost to those who benefit. Any reasonable distribution of fees and charges could be provided through consultation between the Secretary of the Army and the Secretary of Transportation after passage of this Bill.

The operating and maintenance costs vary greatly throughout the system, thus recovery completely from fuel charges would not be justified.

But recovery of the basic minimum operating and maintenance costs could be recovered through fuel charges and then the balance of the operating costs for the more expensive segments could be handled through lockage fees where additional maintenance and costs are involved in operating these locks. Furthermore, the cost of new construction should definitely be covered through lockage fees at the facility in question. If this was adopted as firm and positive policy then those who benefit from such facilities would join all the rest of us in insisting that only the most economical and logical capital investments should be made, because they would know ahead of time they were going to have to pay for them over a period of time.

The railroads and even the trucklines pay most, if not all, of their cost of operation and maintenance of their rights-of-way through taxes or direct costs as well as cost of construction. However, so far the barge lines have been completely subsidized by the American taxpayer. This can no longer be permitted as we struggle to balance the budget, cut inflation and restore fiscal strength to our nation. We simply must take positive steps quickly to cut out unnecessary costs and bring our budget in balance to control inflation which has been so devastating to the lower and middle income group.

Before closing, I would like to point out that since all of the locks and dams on the Upper Mississippi were built in the 30's there is a strong possibility that beginning with the work being done on Locks & Dam 26 in the St. Louis area, this could be a starting point for a program of replacing all of the locks. It is most important, therefore, that we set up a system right now for recovering any cost of new construction.

Such a system is embodied in S.810. Even so, if this Bill were passed calling for full recovery of funds invested over a period of, say, 50 years, the beneficiaries would get the benefit of today's dollars and then would be paying off in deflated dollars in future years. But it would be a major first step toward getting our transportation subsidies in order. Furthermore, the barge lines would benefit from this legislation for it does not go back and make any attempt to recover from the beneficiaries of this waterway system built in the 30's the cost of this prior investment from which they have benefited all these years. I think we have to stop looking at the past, however, and look to the future and set positive policies to recover any cost of new construction from this point forward. It would certainly be a major step toward getting our transportation subsidies eliminated and they should be as rapidly as possible on all modes of transportation.

Thus for these two reasons it drastically affects our business and is detrimental to the economy. We support the concept embodied in S.810.

6/12/81

THE NATIONAL GRANGE

STATEMENT OF

ROBERT M. FREDERICK

Legislative Director

THE NATIONAL GRANGE
1616 H Street, N.W.
Washington, D.C. 20006

Before The

SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
U.S. SENATE

June 16, 1981

RE: S. 810 - The Administration's inland waterway proposal

Family Farm Organization Serving Rural America

THE NATIONAL GRANGE, 1616 H STREET, N.W. WASHINGTON, D.C. 20006

Mr. Chairman and Members of the Subcommittee:

I am Robert Frederick, Legislative Director of the National Grange, with offices at 1616 H Street, N.W., Washington, D.C. 20006. The National Grange is a general farm organization representing over 450,000 members in 41 states. Thousands of Grange members use the inland waterways of the United States to transport their products to market and to receive the inputs of agricultural production. Consequently, we are vitally interested in any actions taken by a governmental or nongovernmental entity that affect the inland waterway system.

The barge industry is a vital component of the transportation system serving agriculture. Massive amounts of grains, soybeans, and agricultural inputs such as fertilizer move by barge. The latest U.S. Department of Agriculture study in this area (Water Carriers and Inland Waterways in Agricultural Transportation, Agricultural Economic Report No. 379, August 1977) shows that most barge traffic has been developed in the last two decades. From 1960-1975, domestic barge shipments of grain grew from 4.7 million tons to 20.5 million tons, soybeans from 2.3 million tons to 9.3 million tons, and wheat from 5.1 million tons to 8.6 million tons. The shipment of agricultural production inputs has experienced a similar rapid increase in growth.

The majority of all agricultural commodities moving by barge are shipped on the Mississippi River and its tributaries, primarily the Illinois, Ohio and Missouri Rivers. However, the great Northwest cannot be overlooked, as millions of tons of agricultural commodities move by barge via the Columbia and Snake Rivers to Pacific ports. In many areas of the nation, barge traffic is absolutely necessary if family farmers are going to meet the ever increasing world demand for American agricultural products. Because of this dependence on barge traffic, the Grange has serious reservations about the pending legislation to increase user fees on barge traffic using the inland waterways.

The current proposal is the latest in a series of waterway user taxes begun by President John Kennedy. These taxes should be put in proper historical perspectives. The Northwest Ordinance of

1787 declared the interior rivers to be "forever free (from) taxes, impost or duties," and since then, the federal government has financed the cost of construction, maintenance, operation and rehabilitation of our inland waterways.

Last October, Congress passed legislation (P.L. 95-502) to place user fees on barge companies using the inland waterways. It almost goes without saying that these fees are then passed on to the farmers using and depending on barge traffic to supply the goods they need for production, as well as their agricultural outputs. Now, the Reagan Administration has launched a strong effort to make a radical departure from the tradition of federal support of our inland waterways to total cost recovery through user fees. The present system has served the nation well for over 150 years, and the Grange feels it merits a closer look before all agricultural transportation is disrupted by increasing inland waterway user fees by 300 percent, as the Administration proposes. We certainly need more accurate and complete information than the Office of Management and Budget apparently used, when they said increased user fees would cause no problems because the big barge companies could afford to pay.

The National Grange urges Congress to first receive and examine the study of the impact of waterway user fees on the various modes of transportation before acting to dramatically increase user charges. The study, called for in Section 205 of P.L. 95-502, is to be sent to Congress September 30, 1981. Yet, even after receiving this study, we will not know the potential impact of user fees on agricultural producers. The ~~original 205 study~~ was to be funded at $8 million and ~~was to include USDA analysis on the impact of user fees on agricultural commodities. Unfortunately,~~ the appropriations were cut back drastically to $1 million, and ~~the Department of Transportation eliminated the USDA portion of the study.~~

The Department of Transportation, the lead agency in the study, has hired Dr. Allen Ferguson of the Public Interest Economics Center to help prepare the study. It is our understanding that he will write on "Economic Theory of Federal Aid to Transportation." This is the same Dr. Ferguson that received a $35,000 grant from the Association of American Railroads to "develop and advocate implementation of a nationwide system of user charges for our waterways." There is some question over whether his contribution to the report will be without bias.

Early indications by DOT are that the study will show a diversion of traffic from the waterways if 100 percent cost recovery is instituted. History tells us that as barge rates increase, railroads quickly match the higher barge rates. Therefore, ~~we believe no action should be taken to increase user fees until current, accurate information becomes available on the effect of user fees on agricultural transportation and on the producers of agricultural products.~~

Certainly the situation is more complex than the OMB's statements indicate. It is not so simple as their assertion that the barge industry is big enough to afford to pay higher user fees. Higher user fees, regardless of the method used, whether fuel tax or lock fees, will be passed back to the shipper. This will place a further strain on the ability of farmers to produce profitably. Farmers are unable to pass on their increased operating costs to consumers since the market price for many commodities (e.g. wheat) is established by world supply and demand.

The National ~~Grange supports the concept of user fees, assuming the various modes of transportation are treated equally and the fee is a reasonable charge for the transportation services provided~~, but we ~~oppose the user fees provisions of S. 810.~~ The Grange supported P.L. 95-502 and the user fees it imposed, primarily because it was made clear to us by Congress and the Carter Administration that it was the only way to have Lock and Dam 26 at Alton, Illinois, on the Mississippi River replaced. We did not feel the user fees established under the Act bore a true relationship to the actual cost of the transportation service provided by the inland waterway, or that the user fee was equitable in regard to similar fees charged to other modes of transportation.

Technically, the user fee in P.L 95-502 is an excise tax on fuel, and is not formulated on a cost recovery basis. However, the intent of the law is unquestionably directed to some level of cost recovery. At the time, sufficient data were not available to the Committees of Congress to properly devise a user fee reflective of the true cost of the operation and maintenance (O&M) of the inland waterways. In fact, Section 205 of the Act directed the Secretaries of Transportation and Commerce to conduct a "Study with Respect to Inland Waterway User Taxes and Charges," to determine:

> "The extent to which the Federal Government should seek to recover some or all of Federal expenditures for the benefit of inland waterway transportation from the users of the facilities for which such expenditures are made."

Clearly, ~~Congress intended the present excise tax to be an interim measure of taxation until a more sophisticated method could be formulated on a basis of cost recovery.~~ The bill pending before this Committee, S. 810, calls for 75 percent of O&M cost to be recovered through a user charge on inland waterway users. We submit, Mr. Chairman, that neither the Grange, nor the sponsor of this bill, nor the Administration, know if the user fee or the percentage of recovery suggested accurately reflects the operation and maintenance (O&M) cost attributable to providing transportation facilities on the inland waterways. One of the purposes of the Section 205 study is to determine this information. As we pointed out earlier, even this study will be incomplete, not only because it will not consider the effect on agriculture, but also because it does not address the problem of determining the Federal expenditures made exclusively for commercial navigation on the inland waterways.

The National ~~Grange strongly recommends that action on S. 810 be postponed until adequate and up-to-date data are available on (1) user fees and their effect on various modes of transportation and the users of such transportation;~~ and ~~(2) the percentage of Federal expenditures on inland waterway operation and maintenance attributable to rendering the waterways open to barge traffic.~~

The major flaw in S. 810 is its failure to recognize that waterways are shared by a large number of users in addition to farmers and manufacturers shipping their products to market on commercial barges. The only equitable approach to this problem is to ~~require the U.S. Army Corps of Engineers to conduct a full and complete investigation of all uses and beneficiaries associated with projects authorized exclusively for navigation, as well as of projects featuring navigation as one of their purposes.~~

We suggest that the study cover the last five years, and include (but not be limited to) consideration of the following uses and beneficiaries: commercial water transportation; flood protection; municipal and industrial water supplies; recreation; power generation; irrigation; river bank stabilization; fish and wildlife enhancement; regional development; defense preparedness; and the facilitation of export promotion.

At the completion of the study, the ~~Corps should recommend: (1) a level of cost allocation for each beneficiary; (2) a method of cost recovery that is cost effective, equitable, and causes minimum disruption to the water transportation industry; (3) a procedure for reporting and collecting fees;~~ and ~~(4) the estimated cost of implementing the collecting system.~~

In October of 1980, the U.S. Army Corps of Engineers conducted a feasibility case study entitled, "Navigation Cost Allocation Study -- A Feasibility Case Study," covering the Pittsburgh, St. Paul, and St. Louis Districts. The Corps concluded, "It is possible for the Corps of Engineers to perform an allocation of cost between user categories for navigation projects and work functions." The study also concluded, "The Corps is capable of estimating those costs (expenditures) which are properly attributable to commercial navigation at as high a degree of accuracy as any cost allocation performed by the Corps for other purposes (i.e. water supply)." This study is available from the U.S. Army Corps of Engineers, and we feel it shows that the Corps can be relied upon to provide an accurate cost allocation between user categories.

The figures on Federal expenditures accompanying S. 810 are rough estimates and are entirely too high. We believe Congress should direct the Corps of Engineers to undertake a Cost Recovery Study on all inland waterways. During the study period of approximately two years, there should be no increase in existing waterway user taxes and no consideration of new legislation that calls for full cost recovery or any arbitrary cost level less than full recovery.

Mr. Chairman, we thank you for this opportunity to present the position of the National Grange and we ask that this statement be made part of the hearing record.

Mr. Chairman and members of the Committee. I represent the National Taxpayers Union, a national non-profit, non-partisan public interest organization with 450,000 family members who live in all 50 states.

NTU is dedicated to the following goals:

- An America where free people can work together to build a better life
- An honest accounting of government finances
- A reduction of government waste, spending, bureaucracy, and regulation
- Lower taxes for everyone
- A constitutional amendment which outlaws inflationary deficit spending and reduces the tax burden

I am pleased to offer testimony concerning water resource policy as it relates to transportation. I have been following Congressional consideration of issues involving transportation.

The National Taxpayers Union supports the concept of user charges for all modes of transportation. Further, we believe that the recipients of government provided services should pay their fair share. This should be applied evenly across the board without regard to parochial or special interests. Any special interest group that benefits from a government subsidy, be it industry or private citizen, should not expect taxpayers to pay a share of the costs for which they receive no tangible or intangible benefits.

Although some will argue against it, it is our view that subsidies to one segment of an industry over another disrupts the marketplace and the competitive leveling forces that operate to provide the best service at the best price for the user.

Subsidies can only lead to inequities in transportation usage. The removal of subsidies will help to develop a more equitable distribution of the tax burden among those using a service.

Costs must be attributed to that segment where they rightly belong. The subsidy in the form of construction and maintenance to inland waterways should be removed for the sake of improving transportation efficiency and to reduce the likelihood of unneeded projects being undertaken. A waterway user fee that would recover 100 percent of the costs attributable to navigation is reasonable and fair. However, it is also necessary to identify the component parts of any water resources project, be it waterway, dam, bridge, canal, etc. Each beneficiary should be assessed its fair share. Those who receive benefits from irrigation, flood control, water supply, redevelopment and even recreation should be equally assessed.

It is important that not only users of a particular mode of service pay, but that the costs to the taxpayers, as reflected in the federal budget, for all modes be examined carefully and defrayed equitably through user charges. We believe the users of highways, railroads, airports, water ways, and seaports should all pay their fair share.

In the case of highways, it is recognized that different kinds of vehicles contribute to the maintenance costs. There are many factors that contribute to highway disrepair; weather, age, lack of funds, increased traffic, and weight. Although both truck and auto traffic have increased, it is apparent from reports that it is the heavy truck traffic causing most of the traffic related deterioration of the nation's highways. Certainly, truck user fees should reflect their fair share of the costs. Whatever formula is used, the taxpayer burden should be removed in the same manner we are attempting for inland waterways.

Again, it is absolutely necessary to ensure an across-the-board application to the concept of user charges.

To raise charges for barges and have no linkage for the recovery of federal subsidies to railroads would leave the job only have finished. Amtrak and Conrail have received mindboggling direct subsidies under the guise of national interest. The indirect subsidies to the railroad industry through lower freight charges as a result of Conrail subsidies is an example of unfair application of subsidy.

Even Congressman James J. Florio, the Chairman of the railroad subcommittee in the House said last September: "As has been mentioned on numerous occasions this federal government in the past five years has spent some eleven billion dollars in rail subsidies."

When you throw in the half billion a year deficit in the railroad retirement fund, made up by Social Security interchange of funds you have a subsidy that begs to be offset by user charges.

Clearly, there is a need for user charges for all modes of transportation. There is a need to recover Federal outlays enjoyed by transportation competitors on a parity basis. It is also necessary to ensure that funds received through these fees are channeled into projects that will assure the greatest efficiency improvement for the system.

A waterway user fee that would recover a substantial portion of the construction and maintenance costs of a project should lead to close scrutiny of all projects. The possibility that each project would be assessed on need and benefits rather than traditional pork barrel politics would be improved. The Tennessee-Tombigbee Waterway, which NTU has actively opposed probably never would have been started if the beneficiaries had been required to pay just twenty-five percent of the capital costs of construction. Without waterway user fees we are missing perhaps the most effective test of the economic merit of a navigation project.

As the Congressional Budget Office stated:

> "Shifting the full costs of waterway navigation facilities to the beneficiaries (or users) of such facilities would promote more efficient resource allocation. The rates charged to shippers would more nearly reflect the true economic costs of this form of transportation. Distortions in the choice among forms of transportation resulting from taxpayer subsidies would thus be reduced."

User fees will bring a substantial new ingredient into the present process of economic justification for it will require the prospective beneficiaries to put up their own capital in order to receive the project benefits. If the benefits do in fact outweigh the costs, then it is only logical that beneficiaries should be willing to pay their fair share.

Again, it is important to note that we advocate a fair cost allocation -- that all users of a service must pay their share.

NTU does not take a position on the appropriate mix of user fees - segment tolls, lockage fees, ton-mile charges, license fees, etc. which are used to recover the costs of inland navigation. All factors must be considered and a fair allocation of charges made to all users.

When the transportation industry complains that if all recovery of federal costs for waterways, railroads, highways, airports, seaports, would place a cost burden on farmers, businesses and consumers, we would like to point out that the burden is already in place, and it falls on the backs of the taxpayers which includes businessmen, farmers, and of course consumers. We are not talking about adding a cost that did not previously exist. We are talking about placing the cost where it belongs - on the direct beneficiaries of the service.

WATER RESOURCES POLICY ISSUES

THURSDAY, JUNE 18, 1981

U.S. SENATE,
SUBCOMMITTEE ON WATER RESOURCES,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 4200, Dirksen Senate Office Building, Hon. James Abdnor (chairman of the subcommittee) presiding.

Present: Senators Abdnor, Stafford, and Gorton.

WATER POLICY

OPENING STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator ABDNOR. The subcommittee will come to order.

I am hopeful that some of our other members will arrive soon. I want to welcome you all here for our fourth day of hearings on water resources development. We have asked witnesses to address the broad issue of water policy today.

Most of us agree that there are severe problems with the present system to plan and construct projects.

The witnesses are here to discuss various policy issues but obviously to respond to a critical question; that is, given our limited financial resources how can we plan and construct the best water projects in the shortest period of time?

We can answer these questions. We can use it as a foundation for changes in water policy. I anticipate that this will be one of a number of hearings on this critical topic. We will have witnesses in July and will be holding a series of hearings throughout the country in August.

Today we have a number of witnesses and only a limited amount of time. We thought we would be able to spend a full day on this issue. But we must deal with other committee business this afternoon and because of this I am going to reiterate that each panel must limit its oral presentation to 10 minutes. This will allow us time to ask questions.

The other thing I want to mention is that committee rules require that testimony be presented 24 hours in advance. This particular rule has been broken a number of times and on a number of occasions today. I am not directing this to any one group but I will say in the future if we don't have the testimony 24 hours in advance, don't be surprised if you are not called on to testify. We would like to see the material before your appearance.

84-193 O—81——21

We hope everyone will remember that. So we may start getting tough about this.

Our first witness is Gov. Scott Matheson, who is chairman of the water resources committee of the National Governors' Association. Governor, I can't tell you how happy we are to have you here because we know you speak with a strong voice for very important people in this country. We are interested in hearing from you. So we welcome you here. We hope you can shed some light on the issues before us.

STATEMENT OF HON. SCOTT MATHESON, GOVERNOR, STATE OF UTAH, CHAIRMAN, WATER RESOURCES COMMITTEE, NATIONAL GOVERNORS' ASSOCIATION, WASHINGTON, D.C.

Governor **Matheson**. Thank you, Senator. I am very pleased to be here this morning. I am appearing as a representative of the National Governors, Association and my specific assignment with that association is the chairman of the subcommittee on water. You as the chairman of the subcommittee on water resources carry a heavy burden in terms of the national water policy.

My experience with you and your committee up to this point indicates to me that we have probably a more cooperative spirit in terms of the recognizing of the problems in our national water policy and the changes that we need and we particularly are grateful, Senator, for your recognition of the role that States and Governors of those States have to play if the policy ultimately succeeds. I got involved in the national water policy review back in 1977 during the early days of the Carter administration.

At that particular time, we had the opportunity to examine the matter of the national water policy in some depth and discovered that the rules and the statutes and the acts which have preceded that date had served us well in many ways.

But as of that time and since, I think the recognition factor of need for reform and the need to develop processes that involve States to a greater and higher degree of planning and execution and basically your comment a moment ago, the funding problem, is all staring us in the face with stark reality.

That means that we have come down to the point where the process has to be reexamined in the sense of improvement. I don't want to spend a great deal of time today talking about the need for reform. We all recognize that problem. The time lag of that problem, the need for continued year-after-year funding, all of those things which are clear as a matter of good management on water policy.

I am convinced at this particular point after working with my subcommittee for the last 6 months, that there are absolutely no simple answers. I haven't talked to anyone yet who has come up with a solution for a unique way to solve all of the problems we face. So I don't think anyone can come before this committee, least of all myself, and offer you a panacea.

But I do believe that the process and the dialog between this committee and the Governors Association is one of the resources that ultimately will help solve this problem.

My experience with the Congress in regard to water projects and funding and the attitude of the Governors toward that funding has always been our best relationship. I am very hopeful that as the dialog on the national water policy continues that we will have the opportunity with my staff people and yours to meet on an ongoing weekly basis because the solutions as I see it will come only incrementally and a piece at a time.

Second, I am very hopeful that we can involve the administration in this process in a very, very marked degree. It seems in the last 4 years I have been out sword fighting on a constant basis. In the meantime, our water projects are not moving forward, are not being funded and the problems of delay in that sense increase the level of frustration to the point where I think we all feel we simply have to unify, sit down, and be practical.

The first thing perhaps I would mention to you is the fact that the subcommittee I chair examines water quality and water quantity programs. I have been trying to marry those two subjects ever since I got my assignnent.

We are talking about a closer relationship that ultimately I think we will support a close association and a joining in many areas. It is very difficult to get the people on both sides of that fence to agree very often. You probably have never experienced that.

Senator ABDNOR. You have some results here, though, with a few States, haven't you, on that subject?

Governor MATHESON. Yes we have.

Senator ABDNOR. There are a couple of States that have taken the leadership.

Governor MATHESON. Yes I certainly don't want to denigrate the successes.

Senator ABDNOR. No; not enough of them.

Governor MATHESON. But they are few. So this subcommittee meets on an ongoing basis and every time they meet they come up with another piece of resource. We build on this process. We have addressed your Senate bill 1095. I am very, very pleased with the concept of a National Board of Water Policy.

I believe that if we are going to step back and be objective about it, we are going to have to step out of the system we have used and your idea of bringing in an independent chairman pleases me greatly.

If we can move into that kind of decisionmaking with that kind of a group, that will change attitudes and attitudes are the thing that delay us. Therefore, in our opinion, and I personally commend you for that idea, and going over the independent body and the comprehensive study, you have also offered something which we feel will make this a success in terms of Governors' involvement and staff. You have invited us to participate in the design of the program. We thank you for that.

We intend as a part of that process to share with your people every piece of resource we can put together. We have on our subcommittee the finest State water people in the United States. We bring them from all points of the country. They all have differences of opinion and ultimately we hammer out a consensus. That is the kind of work product we intend to offer you to help implement the beginning of that national water policy study.

In my view, the best game in town in terms of something to grapple with is Domenici-Moynihan approach it is a dramatic and it is a fairly audacious and bold departure from the past, but I think the reality of budget cuts and the reality of the problems of inflation and finishing existing water projects forces us into examining ideas that we perhaps haven't had the courage to grapple with sometime in the past.

In my opinion, the Domenici-Moynihan approach provides us with an opportunity to be audacious and bold about how we address those problems. It has a mechanism for example with respect to projects which have been approved and are in the process of being funded and it reexamines some of those in terms of even deauthorization, something we would have discussed publicly and openly too many years ago. But it simply has to be examined.

I have a particularly serious problem in my State with our water project, the central Utah project. When we started that project over 20 years ago, it appeared that it would be a project that could be built for perhaps $250 million. That seemed outrageous at the time. Suddenly, we are looking at water projects that cost somewhere around $1 billion and with the rate of inflation as it has been recently, and the level of funding that the Congress has provided for us, we will never finish the central Utah project.

It is not an appropriate public policy in my opinion to continue to fund the same water projects to infinity and we simply in my view have to find answers to that question. I am very, very anxious and willing as a Governor of a State that has a tremendous outcome in the results of these hearings to sit down and attempt to find good answers to very serious problems of that kind.

I think it is always appropriate for the States to step forward and accept some responsibility for the funding of water projects. Domenici-Moynihan is a 75 to 25 split. I do not personally think that is an unreasonable approach. But I think I should advise you, Mr. Chairman, that getting all of the States to sit down and agree on cost-sharing is almost as difficult as it is to get a unanimous vote in the Senate of the United States. It is very hard to do. But we are working toward that result.

In our national water policy review, when we prepared and adopted our principles for a national water policy, at the State level, we agreed to a cost-sharing approach in principle. Several States have been willing to come forward and embrace that approach. Some States are very concerned about it. Your State, for example, Senator, is very concerned that it could not generate even the local resource personnel sufficient to do the water projects in that State.

That is a real and a legitimate concern. Some of the larger States that have adequate resources are capable of providing that match and we are concerned that if we get too far into approving that approach, the small States may be left and not treated fairly. So the cost-sharing issue is one that we are willing to grapple with and we want to come up with a specific recommendation to this committee and we will do so.

Getting the consensus we need or an alternative or two for you is something that we will continue to grapple with at every meeting we hold. I had hoped I could come to you today and offer you a

State recommendation in that regard. But as many meetings as we have held and addressed that we simply have not been able to arrive at a satisfactory answer. But interestingly enough, no one else has offered me one to look at either.

I think that points out something about the problem we face. It is so intricate, so large and has so much history to cope with that even minor changes in the public policy we followed for so many years is very difficult to do. I think realistically we are going to have to chip away at reform and not grapple with setting aside all of the years of the Reclamation Act since 1902 and say we start all over.

That being the case, the best thing I can offer to you this morning is a total resource capability of the National Governors Association, all of the expertise we have in each State and the willingness to sit down and grapple and some of the new approaches to a national water policy.

I believe that the attitude we have experienced with you and with the members of your staff and with the Congress now I think it is the healthiest attitude about this approach I have seen. I think while we are all healthy with that attitude we probably had better strike while the iron is hot because these attitudes eb and flow. The opportunity is obviously here. We are anxious to participate with you in a meaningful way.

I think that will be adequate for my opening remarks. I would prefer to respond to any questions that you or members of the subcommittee may have. May I simply offer my testimony for the record, but not pursue it any further on a written basis?

Senator **Abdnor**. I assure you, Governor, your entire statement will be placed in the record. (See p. 357.)

Just let me say I certainly think your comments are refreshing and frank and we are very appreciative. We need some strong statements like this at this time because we are in a period when we would like to start going in the proper direction with our water projects and correcting come of the mistakes of the past.

So we are very grateful for your appearance here today. I want to say one thing, we appreciate having the chance to work with Joanne Warren, your right hand there. We know you do have a fine staff.

Governor **Matheson**. I appreciate it, too.

Senator **Abdnor**. Hopefully in the days and months ahead we will be working very closely with your group because you represent the people who have to work with these programs and the policies that we come up with. So I can't thank you enough.

Incidentally, I am extremely pleased that the chairman of our Environment and Public Works Committee could find the time to come here.

Senator Stafford, would you care to make a comment?

Senator **Stafford**. Thank you very much. Very briefly, due to past experience of mine, I have a considerable respect for the Governors' conference and its members having once served in it some 22 years ago.

I am delighted, Governor Matheson, with what you said about cooperation this morning. It is important for the Governors' conference and the Senate and the House to work together on these very difficult programs. Reading the top of page 2 of your statement, I notice you touch on industrial water supply, soil conservation, drinking water, safety, waste treatment, fisheries, recreation programs.

I would just ask, does your committee for the Governors' conference act in all of these areas?

Governor **Matheson**. My committee acts in water quality and water quantity across that entire spectrum. I cited those subjects to point out how varied and diverse the Federal system has become with respect to the statutory framework that we address those issues with.

Senator **Stafford**. I mention this, Governor, because two other of our subcommittees have some jurisdictional areas that also impinge on your committee. Senator Gorton's subcommittee—Senator Gorton is here—Senator Chafee's Subcommittee on Environmental Pollution. It might be well if your staff could interact with them as well as with this subcommittee.

Governor **Matheson**. We have scheduled to appear before Senator Chafee's subcommittee next week I believe. We would welcome the opportunity to work with Senator Chafee and Senator Gorton. We have already opened our dialog with Senator Abdnor, who has been most gracious. It has to be that kind of an approach. We spin over into those subcommittees and ultimately I suspect we will be talking to you a little bit about it, too, Senator.

Senator **Stafford**. I always enjoy a chance to visit with you, Governor, on the problem that you are addressing. With that, I think I will yield back to the chairman of the subcommittee.

Senator **Abdnor**. Thank you. Again, Mr. Chairman, I want to thank you for being here.

You have already mentioned Senator Gorton. We are happy to have him on this committee. He has been involved with water problems out on the west coast. Senator, do you have any comments?

Senator **Gorton**. Thank you, Governor. I particularly am encouraged at the breadth and the tolerance of your views of your support for the Domenici bill; I think it bodes well for the future of relationships between the Federal Government and the States.

You reflect so broadly not only the request on part of the States that they have a much more significant say in what gets done, but a willingness to take the significant responsibility for seeing to it that the projects are accomplished.

With that, Mr. Chairman, I have a copy of a letter from the Department of Ecology of the State of Washington which in many respects says precisely the same things that the Governor has said. This would have been their testimony had they been able to be here. I would like that to be entered into the record after the completion of Governor Matheson's testimony.

Senator **Abdnor**. Without objection, it certainly will be done. We are happy to have it, I assure you. (See p. 324.)

Senator **Abdnor**. Governor, just a few questions. I am sure others have questions. The bill, S. 1095, calls for a chairman of the State Committee to serve as a member on the Water Policy Board. There is some question whether this individual should be a voting member or not. Sometimes as you just said it is hard to reflect the sentiment of all 50 States.

Do you think if this was to come to pass that this member should be a voting member?

Governor Matheson. My judgment would be that if that member had the ability to vote on a tie, to settle issues, if that happened to be the case, would be a tool that would be necessary to be a strong enough leader to make that process work.

I hate to be an ex officio without voting on anything I am a part of. I would rather see that individual a full player at least to the extent of breaking a tie vote.

Senator Abdnor. Very good. We are happy to have that information.

The Domenici bill talks about cost-sharing. Do you think you could ever get any kind of a formal position on the issue of cost-sharing?

Governor Matheson. I had hoped I would have one here for you today, Senator Abdnor. I met with my subcommittee. I think it was in January, and I advised them that we needed to get right down and have definitive positions. They have met and worked diligently. We are moving toward that result. I think that the commitment I would make to you as we will provide you with a definitive State position on DomeniciMoynihan in time for you to utilize that in your final decisionmaking process.

I hope the subcommittee members are here to hear that because I think that means a little extra work for them. I should make one comment. My subcommittee disagrees with me about the voting member. I think probably I had better indicate my subcommittee disagrees, but I reserve the right to disagree with them.

Senator Abdnor. I guess that is what we are thinking of, the problem we could have. That is very good to point that out.

Let me ask you about the Domenici-Moynihan concept, what do you think about grants that would address both the supply and quality of the problems on water?

Governor Matheson. I think conceptually it is the way to go. Ultimately as the chairman of the committee has pointed out, we spill over into so many areas, and there is so much interfacing between the quality and the quantity issues, I would conceptually think that makes good sense. I am concerned about one thing. If you end up putting them together and then putting the price tag on that was the one for just part of it and not the other, I am worried about the funding of it.

Senator Abdnor. What if you put it all together, say here it is for both?

Governor Matheson. If you put it all together from both sides, I would love it.

Senator Abdnor. Here it is, supply and quality, you make the judgment. That is going beyond what the bill says right now. It is a possibility.

Governor Matheson. I agree with that approach fully. I think it is good.

Senator Abdnor. You were talking about the Central Utah Project, and I guess there are the same sorts of projects going on in other places. How do you think we should address those past commitments?

Governor MATHESON. First of all, in my experience I believe that the State itself has the first obligation to sit down and evaluate the nature of the changes that it could support and try and bring a State answer to this committee and the Congress as a solution to it. Each of the cases is so different that if we decided to have a standard here in terms of solving that problem, I am afraid it would punish some and reward others. So I think the responsibility ought to be assumed at the State level for a period of time and we would come out with a cost-sharing approach, redesign approach, a different way to increase the user charge, the makeup of the statutory framework and several of those we will be looking at that as a matter of process in our own State; see if we can't bring you an answer instead of you telling us that you are going to have to do arbitrarily a cutting of the budget, extend the time another two years, whatever it may be.

So we will look at that from that perspective and I think design hopefully a State approach on an individual State-by-State basis.

Senator ABDNOR. One other question: You were talking about cost-sharing, up front money, 25 percent in the Domenici-Moynihan bill, and that some States would be finding it difficult to find the necessary matching money. Again, that is one problem. Then there are some States which actually feel they have some sort of commitments from the Federal Government for past agreements and again in the area where I come from, Montana, North Dakota, South Dakota, Pick Sloane, a lot of things were written into the Pick Sloane legislation.

It has never been followed through. Some States feel that they have some commitment in terms of dollars. Do you think there could be some consideration given to those when we deal with the up-front money?

Governor MATHESON. As a practical matter, I think we have to take the authorized projects and evaluate Federal commitments and what has been done on each on an individual basis. Yes, I do believe that we have to take into consideration what commitments have been made. Our system has to be based on good faith and where commitments have been made, they have to be carefully reviewed, find equitable solutions to them.

Without that, I think the integrity of the democratic system suffers. So I would think that would certainly be relevant as part of the reexamination.

I would agree with you that several States would have a serious problem regarding cost-sharing. But an interesting thing is happening in the States right now. Several are finding their own mechanisms. Idaho, for example, just completed a legislative program for the issuance of revenue bonds to use for water projects.

Since I have been Governor, for example, our legislature has authorized $50 million worth of GO bonds which we are using to help finance very small water projects in our State which are needed and it is amazing with just a few dollars what you can do to put these small projects that are so critical to the Western States together.

Several States are coming forward with that kind of an approach, each of which I think is helpful in coming up with the type of a cost-sharing proposal we would ultimately submit to you.

Senator **Abdnor**. That is fine information. Just to elaborate a bit further, what I was thinking specifically was like the States I am most familiar with, South Dakota, North Dakota, Montana, there is a total of over 2 million acres taken over by water. To date most of the States have seen very little benefit, flood control, navigation on the Missouri, hydropower, most of it goes out.

Things are written into the law to offset those 2 million acres which has come off the tax roll, it really has been more of a detriment when it speaks in dollars and cents in some cases.

Governor **Matheson**. Indeed, I fully agree with that. In fact, I have a few grievances of my own which I want to tuck in when we talk about it.

Senator **Abdnor**. Mr. Chairman?

Senator **Stafford**. No. I am here to be educated this morning. I don't have questions, thank you.

Senator **Gorton**. No questions, Mr. Chairman.

Senator **Abdnor**. You suggested water program funding should be done incrementally; What do you think of the top-priority issue to be addressed if we are going to start doing that?

Governor **Matheson**. This particular year, I think for this particular year we are going to have to find the short-term solution to the existing problem and I think ultimately perhaps go to a tiering system in terms of the existing funding mechanisms and the funding mechanisms for the Domenici-Moynihan type of approach.

That would involve each of the existing, I guess $35 billion backlog if I remember the figures on the existing water projects. They have to be addressed quickly. Inflation is eating those projects alive. Each year we delay, it puts them further out of reach. So, frankly, I think we are going to have to address that problem almost at once.

Senator **Abdnor**. Even complete them?

Governor **Matheson**. Or redesign them, deauthorize them, get a cost-sharing, whatever we decide to do. I think we have to face up to the reality that several of those are in midstream. Ours, for example, is about 2 years away from starting repayments. It would be wonderful to start getting repayments back. We have never repaid a dime of this. Of course, I think we have something over 80 percent in repayment in the central Utah project, but it is not coming yet. We are about 2 years away from that point which would show that the reclamation aspect and user charges would pay back and start doing that.

We need to move on that.

Senator **Abdnor**. Thank you very much. I know you have another engagement. We will be moving right along here.

We really appreciate your appearance. I know this is just the start of it. We will be hearing from you and Ms. Warren as we go along with this legislation.

Governor **Matheson**. Please feel free to assign Ms. Warren anything you wish.

Senator **Abdnor**. All right. Everyone heard that.

Governor **Matheson**. Thank you very much.

[The letter from the State of Washington, Department of Ecology, previously referred to by Senator Gorton, follows:]

TESTIMONY

OF THE

STATE OF WASHINGTON

DEPARTMENT OF ECOLOGY

BEFORE THE SENATE SUBCOMMITTEE ON WATER RESOURCES

REGARDING S. 621

JUNE 1981

The Department of Ecology is the state of Washington's primary water resource agency. The department was established in 1970 by consolidating the functions of several pollution control and resource management agencies, and administers both water quality and water resource management programs of the state.

The Department of Ecology supports the concepts embodied in S. 621 as a creative and favorable departure from the existing situation for planning, authorizing, and implementing water resource projects. We especially support the substantially improved opportunity for state involvement provided by the bill. Although the 25 percent cost-sharing requirement may prove to be an impediment to involvement by some states in the early stages following enactment of such a requirement, we believe that in the long run such cost-sharing will be highly beneficial.

While we support the concepts in S. 621, we believe that the bill could be improved by clarification of several points which are discussed below.

1. We believe that any federal project on which cost-sharing is required should be constructed and operated in conformity with the substantive and procedural provisions of state water laws. Inasmuch as there will be no individual authorization statutes for most projects under this bill, this may require that a general state water law compliance provision be added to the present bill.

2. We support the concept of allowing limited flexibility to depart from rigid adherence to National Economic Development benefit/cost accounting, particularly for those projects with substantial Environmental Quality benefits. We are concerned, however, that the language proposed allows so much flexibility in this regard that use of net benefits as a project decision criterion becomes wholly optional.

3. As the state agency which administers the municipal construction grant program under the Federal Water Pollution Control Act, we have extensive experience in developing state priority lists of water pollution control projects. We urge you to draw upon the experiences of this and other states to avoid the mistakes that were made in that program. In particular, we would like to draw your attention to three items.

a) The tendency to impose uniform nationwide priorities or conditions must be avoided. Under the construction grant program, for example, the imposition of national priorities in every state impeded states from solving problems of major concern. These priorities frustrated implementation of the program nationwide. Because the needs of the states vary tremendously, Congress should ensure that no unnecessary restrictions are placed on use of funds in the name of an assumed uniform nationwide need.

b) We support the provision of three additional years for the states to obligate authorized funds. In addition to this, we would like to see a provision allowing termination of an obligation if no progress has been made on initiating the project construction within a reasonable number of years. This recommendation is based again on experience in water pollution control where funds are obligated to projects which are not, in fact, ready to proceed, and such obligations cannot be terminated after a reasonable number of years.

c) The construction grants process requires three separate prioritizations - for planning, design, and construction - which do not allow a commitment to a total project until the final stage. Flexibility should be provided to allow states to tie a feasibility study priority to a construction funding priority such that a project has reasonable assurance of funding from beginning to end if all interests accept a positive feasibility study.

4. The bill should clarify the relationship between the state priority lists required by this proposal and the River Basin Commission priorities required under Section 201(b)(3) of the Water Resources Planning Act.

5. We suggest that water conservation programs, instream flow maintenance projects, and irrigation water supply projects be specifically included in the definition of "project" eligible for federal cost-sharing.

6. We urge that it be very clearly specified that the 25 percent cost-sharing requirement is inclusive of all nonfederal contributions including contributions from the state, political subdivisions of the state, Indian tribes, private interests, or any other entities.

7. Is an irrigation project considered a revenue-producing project for the purposes of Section 103 of the bill? We support such an interpretation and believe that some clarifying language should be added.

We look forward to future opportunities to present testimony on this and related water resource legislation.

Senator **Abdnor**. Our next witness is Gerald Meral, deputy director of the Department of Water Resources, State of California.

STATEMENT OF GERALD MERAL, DEPUTY DIRECTOR, DEPARTMENT OF WATER RESOURCES, STATE OF CALIFORNIA

Mr. **Meral**. Thank you, Mr. Chairman.

Senator **Abdnor**. We welcome you to the committee today. Go right ahead. Your entire statement will be placed in the record. (See p. 368.)

We want to spend some time on questions. Thank you.

Mr. **Meral**. Thank you. I am relieved to say that I provided you with a copy 24 hours in advance. I appreciate the opportunity to present some testimony today on primarily S. 621, Domenici-Moynihan bill. I will try to summarize my testimony and take questions.

The reality of our tight budget times, our endorsement of S. 621 introduced last year is different to the similar bill, has grown over the last year. Regardless of the particular funding level for Federal participation in water projects we would strongly favor the cost-sharing approach.

The reason we favor it is because we have experience with it in our State. We have taken part in the San Luis unit of the Central Valley Project in which the State provided 55 percent of the construction funds. In our State flood controls prevention program at Governor Reagan's insistence we now require the State and local agencies to share the cost of rights-of-way on a 75 to 25 basis for lands and easements and rights-of-way and 90 percent 10 percent of the relocation costs.

This was a very strong part of Governor Reagan's water program. It was passed at his insistence after several years of discussion with the legislature. We also last year supported two bills which included cost-sharing, one which authorized mitigation facilities, another which authorized a mitigation facility for fisheries. In both of these the States has stated a willingness to provide a substantial share of the cost. We are also undertaking two major studies with the Bureau of Reclamation on a 50-50 cost-sharing basis, one is $10 million study on the Shasta Dam and another on the possibility of constructing the Los Vagueros Dam in Contra Costa County.

In expressing our support for cost-sharing we would like to make it clear that our State legislatures will ultimately decide how to handle the non-Federal share. The Congress must act with certainty and precision so that States can decide such matters as how to fund the non-Federal share and whether the State or local agencies or both should contribute. We have attached figures to show the possible magnitude of these costs.

Not just any version of cost-sharing will do. We did not, for example, fully support the cost-sharing legislation which preceded the original Domenici-Moynihan proposal. This was largely because no action was ever taken on our recommendations for improvements. Our biggest objection was the glaring omission of a meaningful State role in planning, constructing, and operating future water projects. Early cost-sharing legislation guaranteed the States nothing more than increased costs.

S. 621, with certain changes, is a well-reasoned and creative departure from both the existing situation and from other cost-sharing plans. It provides a rational method for deciding which projects should be constructed.

It also requires a meaningful commitment to projects by State and local agencies. We especially like the priority list system whereby major responsibility for project selection is shifted to the States, the provision for automatic authorization of projects found to be needed by both the State and the appropriate Federal agency, and other improved opportunities for meaningful State involvement.

S. 621 should move needed water projects toward more timely completion dates, a welcome departure from the current pattern of lengthy delay. Furthermore, these changes would be accomplished within a framework which would emphasize suitable attention to existing environmental laws, including the National Environmental Policy Act.

We appreciate the Domenici-Moynihan approach, the departure from the rigid benefit-cost analysis. We believe the most important way to determine the viability of a project is to find out whether the water and power users are willing to pay a substantial portion at least of the cost of the water project.

We are also glad to find that S. 621 includes in the definition of projects eligible for funding the idea of funding nonstructural management plans as well as structural facilities.

Title II of the bill which in some ways is similar to your own S. 1095 is also an improvement on the existing Water Resources Council. We do think that the concept of adding public members to the Secretaries of the Army, Interior, Agriculture, EPA is a good idea. We also like the State Advisory Council concept. We believe that the Council should be required to consult with the Advisory Committee and the States before issuing its regulations.

I would like to offer five suggestions in which S. 621 could be improved however. First, we believe that the Federal agencies should solicit the early involvement of States in the planning process. We believe this is absolutely critical. If the State is to participate planning must be timely, meaningful and certain and on the basis of a memoranda of understanding.

Second, we believe that Federal projects should conform to State water rights laws. We believe that Congress in advance of construction and in accord with the U.S. Supreme Court decision, *California* v. *U.S.,* will specify from the beginning that the project will be operated in conformity with the State water laws.

Third would be an optional provision in which the State could ask that the Federal agency comply with the State safety laws and regulations. This would be optional on the part of the States. Fourth, quite importantly, we believe contracts with the users of water and power, 75 percent of water and power of any project should be entered into before the construction starts.

This would avoid the problem which we have had on several projects, built into the project, wondering where the water power will be sold.

Finally, we believe the water conservation provision of the bill should be strengthened and water conservation and waste water reclamation program should be eligible for Federal cost-sharing.

I have included actual language for these amendments. One major discussion is whether water projects should be subject to the cost-sharing approach. We believe if the project has been authorized but not yet started cost-sharing would be appropriate. This is permitted in the bill. However, if a project is already under construction cost-sharing should probably not be required unless the Governor of the affected State voluntarily requests it.

It would be very difficult and probably unfair to stop the project already under construction and demand cost-sharing.

In closing, I would like to summarize why we believe cost-sharing as we would amend S. 621 is a good concept. First, the State role in planning water development would be enhanced and the Federal projects would fit better into State water plans. Second, the involvement of the State legislatures and Governors would be increased. Third, only the most necessary and useful projects would be constructed and in the very tight times we face in the water filed that is very important.

Fourth, if our amendments adopted there would be greater Federal compliance with the State water law which is a goal we in California have sought for a long time. Finally, water conservation and reclamation would become eligible for Federal funding.

S. 621 would correct many of the problems that we discussed already and would put the Federal water program on a much sounder footing. I would be happy to take any questions you or the members have.

Senator ABDNOR. Thank you, Mr. Meral. Your statement has strong views on S. 621 which is what we want to hear from people, how they feel about it. What would you say the single most appealing part of S. 621 might be?

Mr. MERAL. I think the involvement of the States in the Federal water planning process would be the most important aspect. I understand, of course, that many of the States in the past have preferred largely the Federal agencies because of the greater capability of Federal Government to develop and construct water projects. In California, we do have a very strong capability to do water planning. We have had difficulties with the Federal agencies. I think the focusing of Federal agency attention on programs and priorities that the State has would mean two things: One, is the projects would be authorized and constructed more quickly since there would be some State-Federal concurrence and the second is that there would be a lot of reduction in the, I should say, controversy that has gone on in some of the projects we have had in California. I think those two things would be very important to us.

Senator ABDNOR. How many States do you think are stretching so they could do as California is doing?

Mr. MERAL. We have constructed of course the California State Water Project which is probably the largest, undoubtedly the largest single State water project. I suspect that few of the States are capable of handling the kinds of programs we have. However, in our works with the Western States Water Council and the Interstate Water Council and the NGA we are impressed with the increasing ability of many States to undertake at least water planning and to work more and more closely with the Federal agencies. I would be very hesitant to give you a number because some of the States would be concerned that I left them out.

But I think there is definitely an increasing ability there.

Senator **Abdnor**. The point is while you are in a position to do it, probably there are others that would know: You would have to admit that is something we have to think about and look at when we draw up the legislation. Why is it so important to have the States involved in the planning projects?

Mr. **Meral**. I can give you a couple of examples. In the litigation I mentioned, for at least 7 or 8 years has been a continuing litigation. It is still going on over the compliance by the Federal Government about the State water rights laws. We will probably get to the Supreme Court again. The current way things are going which may end up in the Supreme Court on every single water project which the Federal Government proposes to operate in California in the future.

This is a terribly divisive and very slow process which we think this legislation has the potential of resolving. I can give you another example in which the project was authorized several Congresses ago. The State did not approve of the project. The Federal agency did not approve. Nevertheless Congress saw fit to authorize it. It was studied at a fairly large expense by the Bureau of Reclamation by several years and finally this year dropped by that agency after expenditure of probably $1 million.

And at the expense of other projects which the State gave a much higher priority to. So we think this process offers the possibility of focusing in on the projects that the States feel is very important and not dispersing the effort over a wide variety.

Senator **Abdnor**. Could you explain why water conservation and nonstructural alternatives to the development are important to California?

Mr. **Meral**. I could give a couple of examples. We have been undertaking in California in recent years a very extensive water conservation program, both in the urban area, where the emphasis has been on saving energy as well as water and in the agricultural area where we are undertaking an extensive program of research and implementation of agriculture-water conservation.

We see in some parts of the State a great potential for saving water which would extend our own water supplies. We recently issued a report in which we found that up to as much as 400,000 acre-feet of water could be conserved in one irrigation district alone, which, of course, would make it possible for that district to irrigate more land, or perhaps transfer water to some other part of the State, most likely they would use the water in their own district. Funding of that sort of program would be very important to that district and others.

In the area of agricultural water conservation we are also trying to implement water conservation on the farm which is very important to the individual farmer.

Senator **Abdnor**. Are they working on that?

Mr. **Meral**. This has been important especially in the salinity control program where for example the efforts by the Bureau of

Reclamation, Soil Conservation Service have attempted to conserve water primarily with the goal of reducing salt flow into the Colorado River, but also resulting in saving of a lot of water and also in the Mohawk Service Area in Arizona.

This has been very important.

Senator **Abdnor**. More and more you see States involved. Let me ask you one other question. What do you think about combining grants for water supply and water quality?

Mr. **Meral**. In our State, we have two agencies which, actually more than two, but two principal agencies which control water. Our department controls water development, water resources planning, State water resources control board controls the water quality program.

So I am very reluctant to speak for them on behalf of whether the whole program should be combined. However, I would say that we do believe that water quality and quantity planning should be integrated as closely as possible. Even the funding of the San Luis program, for example, was not combined with funding of water development.

At least the planning should be integrated as much as possible. We try to do that on our own.

Senator **Abdnor**. Senator Gorton?

Senator **Gorton**. Do you think that your statement that the ideal relationship in the planning process as well as cost-sharing as it relates to California is equally applicable to much smaller States, States with a smaller economic base, a much smaller population?

Let's take the smallest in population in the West, Wyoming, for example. Are your recommendations, are you confident that your recommendations are generally applicable?

Mr. **Meral**. I wouldn't state that I have that confidence because we haven't talked to every State. But we did discuss this with a number of States in preparation for the hearing. I was surprised to find the support from some of the smaller States, encouraged by States like Alabama and North Carolina.

As Governor Matheson said, I think in the West, some of the Western States, Colorado, Utah, others, are beginning to see the necessity for developing some capability for funding water programs. I would certainly not say that I could say in behalf of each and every State that they had that capability.

I think you will undoubtedly hear in the field hearings, I know in our discussions with the Western States Water Council, we have very strong opponents in the West of this concept. But I am impressed over the last year the change that we have seen in the Western States Water Council and the ICWP, favoring this concept. I think the reason is the problem that Governor Matheson described, the tremendous backlog of projects that are literally being destroyed by inflation, the attempt that has gone on for some years, trying to fund perhaps too many projects, having them not move ahead fast enough, I think the cost-sharing would focus the attention of the States on the most needed projects.

I can't tell you that each and every State could handle that problem.

Senator **Gorton**. Thank you. I do find the change relatively remarkable myself. I may say that your suggestions are very closely parallel with those of the Department of the Ecology in the State of Washington.

But I did have some questions and concerns about even smaller ones, although I suppose the chairman probably is best able to take care of that concern here. Thank you very much.

Senator **Abdnor**. Thank you, Senator. Thank you, Mr. Meral. You have given us some very fine thoughts and views. We may be back in touch with you.

Our next group is a panel testifying on water development, Mr. O'Meara, Mr. Tofani and Mr. Will. If you will come forward.

Gentlemen, I am sure you are interested in the testimony we have had thus far today. We are looking forward to your contribution here.

I am going to be hard boiled and hold our time limit here because we got boxed in by not being able to continue on through the afternoon. But you go right ahead and start out.

STATEMENTS OF J. W. O'MEARA, EXECUTIVE VICE PRESIDENT, WATER RESOURCES ASSOCIATION, WASHINGTON, D.C.; B. JOSEPH TOFANI, PRESIDENT, WATER RESOURCES CONGRESS; AND ROBERT P. WILL, WASHINGTON COUNSEL, ASSOCIATION OF CALIFORNIA WATER AGENCIES

Mr. **O'Meara**. Thank you very much, Chairman Abdnor.

We appreciate that you set these hearings to examine our water policy or I might say lack of national water policy and we thank you for giving us this opportunity to express our views.

In view of the stringent time constraints, I don't want to trespass on my colleagues' time. Therefore, I will highlight my remarks as briefly as possible.

We did not testify before this committee earlier on S. 1095. However, we did testify before the House Interior Committee on a similar bill, H.R. 3432, and we recommended against the enactment of that bill. Our basic concern is that H.R. 3432, much as with S. 1095, proposes a somewhat revised Water Resources Council. We think the WRC is a noble experiment that failed and we are perfectly content to accept President Reagan's action to establish a Cabinet Council on Natural Resources in its place.

We feel that that council will provide a far stronger policy and decisionmaking group than is proposed in either S. 1095 or H.R. 3432 and we have every hope that the Council which will be supported by a strong advisory task force with representation from most of the involved departments and agencies will be able to accomplish the objectives the WRC could not achieve.

Governor Matheson approved of the National Water Policy Board as contained in S. 1095, but we think the Council, Cabinet Council is the new approach that he also called for and as administration calls it a new beginning. Secretary Watt has said he does not plan to establish a national water policy in its place.

He proposes to develop a mosaic of policies that are directly related to the various regions of the country. We applaud this plan because the water resources and water usage across the length and breadth of this land are so diverse as to necessarily make any national policy so general that it would be meaningless.

Mr. Chairman, I would like to take this opportunity to thank and commend Senators Domenici and Moynihan for introducing S. 621. This does not imply an endorsement of the bill, but we feel it has served to focus the attention on many of the problems we face in water resources development. In that regard, I think it has already had some significant impact. I understand that the Corps of Engineers and the Bureau of Reclamation are jointly working to develop a plan to streamline and expedite the timeframe of project authorization appropriation and construction.

Much of the thrust of S. 621 is to eliminate project time lag and perhaps could be accomplished by administrative action. We think it is appropriate as S. 621 proposes for the States to provide a percentage of the project funding. State financial participation is not new. The witness from California pointed out that California has made substantive contributions to projects.

But this does not mean as Senator Gorton asked that every State has the ability that California has in order to plan the projects nor does it mean that the history of project development is taken care of. There is no greater glaring example of this than the Ojahe project, where the State was provided certain benefits many years ago and they have made their contribution in the donation of huge portions of the best river basin land in all the time that has elapsed.

They have not had their share of the project constructed. This is a glaring difference that would have to be taken care of in any further enactment of different authorizations.

But one of our concerns with the Domenici-Moynihan bill is the proposed formula for allocating Federal funds to the States. The size and population of a State is not the only criteria for water projects activities. I want to repeat that I said this is one of our concerns because we do not have a better suggestion to offer at that time.

But we do note that in H.R. 3432, they proposed financial need and the need for improved water management as two criteria for the determination of each State's allotment. Whatever the final determination of State allotment under the block grant program authorized by S. 621, we would like to offer the following suggestion: Rather than block grants for every State and for lack of a better title, let me propose block revolving funds.

Under this concept the States could use grant funds for flood control and pollution control projects but vulnerable items such as those that provide a specific service such as water distribution systems would repay the water fund for both capital and interest.

Under the reclamation program in the West, about 87 percent of the Federal investment in water project is repaid to the U.S. Treasury by direct beneficiaries. We are perfectly content to continue this payback arrangement but S. 621 could change our present loan system for project funding to grants.

We don't think this is necessary. The need for water resources development in the United States is so great we think it is time to extend the authorization of the Bureau of Reclamation to operate in all 50 States of the Nation.

Either that or amend the authorization of the Corps of Engineers to remove some of the restrictions that now apply to corps projects.

It is time to look at the basis of water project feasibility. The current principles and standards are under review. As they currently are drafted they stand as a deterrent to water project development and rather than the guidelines for project development. The benefit-cost analysis needs to be revised and updated to reflect the current need and value of water.

The present system ignores many project benefits that should be recognized.

Senator **Abdnor**. We are running on a time limit here. You have already used about 6½ minutes of the time we allowed.

Mr. **O'Meara**. I am sorry. The interest of this committee is evidence that these changes can occur and we thank you for your interest.

Senator **Abdnor**. Thank you.

STATEMENT OF B. JOSEPH TOFANI

Mr. **Tofani**. Mr. Chairman, members of the committee, I am pleased to have this opportunity to appear before this committee as a representative of Water Resources Congress, an organization which places its history back to 1901. I want to express my appreciation for the leadership taken by you and your subcommittee in developing your report to amend the Water Resources Planning Act.

With 46 years' experience in water resources I have witnessed many changes usually accompanied with accomplishments. But this has not been the case during the past several years. The water program seems to lack purpose and direction and has been going steadily downhill. On this pessimistic note I might add that these hearings have an urgency about them that underscores the need to reverse this trend of declining water resource development.

Priorities may shift, but we can predict that water demand and water uses will continue to increase.

In today's climate of high inflation, need for a balanced budget, increased expenditures for national defense, our water program faces a period of marking time. But perhaps we can turn this period to our advantage by concentrating on the urgent need to develop a water program and policies to meet the water requirements of our Nation.

In carrying out the water programs down through the years we placed too much emphasis on the benefit-to-cost analysis in making decisions, failing to set adequate goals and objectives for a water program in today's society.

The legislative products of the sixties and seventies were accompanied by new ground rules, no benefit-cost analysis, but rather total programs with goals and objectives. Why not take a page from these legislative acts, acts which did not develop programs in a piecemeal fashion but developed total programs.

I believe there are many concepts on how water development, conservation, and management should be addressed. This committee has addressed it in one way and I think it is very good. The House Public Works is very good. All I am suggesting is the changes would be do this in two phases. First would be the planning phase in which we would develop a plan for each river basin or a blueprint for each river basin.

I think this should be assigned to one agency to have the responsibility to do this even though that one agency could do it, but you have got to put the responsibility on the one agency to make these plans. Then this Water Policy Board that has been established under your bill, I think, would then set what we need, the basic responsibility to review these plans, set the priorities, recommend who should build the project, who should pay, in short, make the necessary policies for a total water program. This criteria should not only be approved by the executive branch, but in my opinion it should be approved by the legislative branch.

I believe strongly in an independent chairman because he will have full time to devote all his efforts to the urgent water problem we seem to be facing. Regardless of how capable our Secretaries are they have too much to do in their own Departments.

In my statement, I do not mention the Secretaries of these Departments should be members of the Council, but I think some member, one of their assistants should be a member of the Council.

In conclusion, let me emphasize that we have become too involved in details of the program but not the program itself. We have spent too much time doing nuts and bolts and overlooked what the objective or goal should be. I believe if we developed a water program for each of our major river basins, the details that have concerned us for so many years would soon fall into place.

Time is running out. We are not making full use of our water resources while our Nation's population continues to grow. Water resources development is not only lagging it is grinding to a halt. Our economy will surely fall if we don't produce a program to support the adequate development of water supplies to meet the needs of this Nation. Thank you.

STATEMENT OF ROBERT WILL

Mr. WILL. Mr. Chairman, I am Robert Will, Washington counsel for the Association of California Water Agencies. The association is a statewide organization of public water districts and municipal water departments and represents service of over 90 percent of the surface waters in California to urban and agricultural users.

Because of the time, I would like to just make a couple of comments and I think in part they echo things that both Governor Matheson and Jerry Meral have commented on.

First of all, with respect to the allocation to States, that is proposed in S. 621, we do recognize the need for equity in providing for water projects throughout the United States. But we are concerned again about a fixed formula. Perhaps some of the suggestions that Mr. O'Meara made with regard to also a recognition of need and nore effective water management within States might add the various features to that that could give the flexibility in the allocation formula with regard to States.

Also with respect to the cost-sharing proposals, I think in California where you certainly demonstrated that we are ready to share costs with the Federal Government on water projects, but again a fixed formula may create problems not only in the smaller States but within the State of California itself.

So we do not have any specific suggestions at the present time on the formula, but we hope to have some opportunity to work with the committee in making some suggestions.

We also have some question about the traditional role that the Federal Government, the States and local water agencies have had with regard to the development and planning of water projects. We certainly agree that State and local agencies, perhaps, should participate more actively in the early formulation and identification of projects, but we question a much stronger role that might involve State legislatures and State administrations with respect to trying to speed up the process.

We are not sure that State legislatures in reviewing water projects are going to move any faster. It may actually take longer.

Senator ABDNOR. Thank you, Mr. Will.

We appreciate your brief presentation. We do have a few questions.

Mr. O'Meara, you said that you endorsed the President's Cabinet Council to develop water policy. Do you think Congress should be involved in establishing water policy to any degree?

Mr. O'MEARA. I support the Council, Senator Abdnor. I should in no way indicate that the Congress should abdicate its responsibility in water policy. I think the Congress would be receiving some recommendations for this consideration from the Cabinet Council. Not everything that is done in water resources development can be done by administrative action. When they developed the legislation that is required for water policy, then the Congress certainly can work its will on any bill.

Senator ABDNOR. Don't you think that is somewhat what they have in mind? The Congress it seems to me, is pretty well left out of this Cabinet Council that you are endorsing here. I assume you are going to give an endorsement to it. You are pretty well giving an endorsement to all of the decisionmaking.

Mr. O'MEARA. We don't think there can be any water policy unless it is approved by the Congress, certainly, Senator.

Senator ABDNOR. We have been thinking that the administration has said they have the right to make the policy. They are not even sure they need any legislative rule or anything else.

Mr. O'MEARA. In the final analysis, I guess the Congress has the ultimate weapon in the appropriation. If the administration comes up with a negative do-nothing policy, then of course there is no request for appropriation, then under this system the Congress would have no input to policy. But if it is a policy that wants to move ahead and which I have every confidence they would do under the words that we received up to now, I think the Congress would be fully apprised and brought in.

Senator ABDNOR. In other words, you think our control would be strictly through appropriations?

Mr. O'MEARA. No, sir.

Well, there is no project that can be built unless there is an authorization for that project. That has to come to these committees;

Senator ABDNOR. We are talking about going back to the overall policy; what goes into the policy, the standards, the principles, everything that goes in, that is strictly the responsibility of the Cabinet without any input or approval on the part of the Congress.

Mr. O'MEARA. I haven't seen any place where in the establishment of the Cabinet Council they have suggested they would not receive any input from the Congress.

Senator ABDNOR. We haven't seen much that says they would.

Mr. O'MEARA. If you go to a National Board of Water Policy, where does the Congress have its authority there, other than its appropriations?

Senator ABDNOR. In us, we have reports coming back. We confirm the chairman of this Board under this proposal.

Mr. O'MEARA. You confirm the Secretary of Interior and any member of the Cabinet.

Senator ABDNOR. We haven't got time to go over all of this. Do you think the States should have some input into this thing?

Mr. O'MEARA. I have had every indication from Mr. Carruthers and from Mr. Gianelli, who are acting members, Gianelli heads the task force that will be making recommendations to the Cabinet Council, that they want all of the input they can get from the States as they develop their policy background.

Senator ABDNOR. We are talking about in the overall policy, not projects that these gentlemen would be approving. We are talking about policy. We are talking about all of the input the States will be having in the future, the cost sharing, everything else. Are we going to give them a say in it?

Mr. O'MEARA. For example, before this committee now is the Domenici-Moynihan bill, which goes a long way in establishing congressional thought on how the policy should be.

Senator ABDNOR. You do agree that it is appropriate for States to provide a percentage of the project funding?

Mr. O'MEARA. Yes, sir, I am really interested, Senator. Early on after his apointment as Secretary of the Interior, Secretary Watt had a meeting with 11 of the Western Governors and he suggested there would be State participation. They seemed to be so willing to accept State participation that none of the Governors ask him what percentage he would recommend. Now the bill calls for 25-percent recommendation, and some States can meet that. But other States are going to find it very, very difficult to come up with 25 percent. I have been urging the States that I represent to look at the fact that there should be a tax reduction from the Federal Government and at the same time the Federal Government is handling more responsibilities to the States and the States should pick up some of that tax reduction as State tax in order to be able to participate in this program as their responsibility.

Senator ABDNOR. Thank you.

Mr. Tofani, in your testimony on the cost-benefit ratio, are you saying we should construct or should be able to construct projects that don't have a possible input?

Mr. TOFANI. I think the benefit-cost ratio is overworked. I think it is one indicator. If you look at the Domenici-Moynihan bill, you will notice there the State projects do not have to have a favorable benefit-cost ratio to be built but regional projects do.

I think there is inconsistency. I think the b/c ratio is just one indicator of whether it should be built or not. There would be other circumstances as to whether that project should be built or not.

Senator **Abdnor**. Give us quickly one example.

Mr. **Tofani**. I think in the case of what is happening in your State of South Dakota, they took all of your land, maybe they should give you a project for what they didn't pay you for your land.

Senator **Abdnor**. I am bound to like a project in South Dakota, but when all is said and done, our money is so limited we ought to make sure it is a project that is worthy.

Mr. **Tofani**. I am concerned with projects like the Tug Fork in West Virginia, where those houses are worth nothing, you can't move those people, you can't justify a flood project. Every year they get floods. Every year the Federal Government goes in there. If you had Rockefeller or Mellon mansions down there, you could justify the project down there because the cost of those houses are a great deal more than what those miners are living in. So I don't think it is fair to tell those people every year to take that punishment. You can't move them anyplace. They are down in the valley.

Senator **Abdnor**. Thank you. That goes to the thoughts at which I was driving at. Do you believe the River Basin Commissions can actually establish the priority and force them to?

Mr. **Tofani**. I think the River Basin Commission is still getting into the planning like they have under the Water Resources Council Act, getting together what their priorities are and the River Basin Commission, yes, should be working for the States because the States do make up a good part of the River Basin Commissions. I think that would be their big responsibility.

Senator **Abdnor**. Not to put you on the spot, but do you endorse S. 1095 or the concept of it? You said you liked the independent chairman.

Mr. **Tofani**. I do endorse it as far as the members are concerned, I am concerned about putting the Secretaries on a Council simply because you might have another Water Resources Council. I think the President's Council might do the same thing. I suggest you go one level lower to the Assistant Secretaries for Water. I think they have more time to devote to it. Then with an independent chairman who has full time, a full-time independent chairman can work with these people, meet with the Governor, regardless of how good the Secretary of the Interior is, very capable, very able man, dedicated man. He has got 10 or 12 bureaus to run.

The water problem, as urgent as we think it is today, we need a full-time man there with a statute that he can go to the Governors and so forth.

Senator **Abdnor**. Thank you.

We are moving right along.

In your testimony, Mr. Will, you suggested that we should expand the Bureau of Reclamation program to all 50 States. It is in your written testimony.

Mr. **Will**. Yes. That is correct.

Senator **Abdnor**. Would you care to expand?

Mr. **Will**. I think a part of the problem has been in the allocation of funds that the Bureau of Reclamation which has worked extensively in the West in developing irrigated agriculture has not had the opportunity to do the same and solve the same type of problems in Eastern States. They have a great deal of experience, eastern agriculture is now beginning to recognize that they need extensive irrigation to remain competitive. We believe this is the Bureau that has the capability to assist.

Senator Abdnor. Thank you. We are glad to have that on the record. Would you endorse the concept of the block grant allocation?

Mr. Will. We do subject it to enough flexibility to meet the needs of individual programs as they are developed. The problem would be that some projects are so expensive even though they may lie wholly in one State that the block grant program may not have the flexibility to put that project together.

We think there needs to be other types of mechanisms so that an individual project can move forward and not be limited by a fixed funding allocation.

Senator Abdnor. Do you have any suggestions? That is quite a challenge, under the block grant, if we are going to have a block grant system.

Mr. Will. I appreciate that.

We have no specific suggestions at this time other than perhaps some mechanism needs to be developed that looks at needs of individual States as well as just population and land.

Senator Abdnor. Thank you.

Gentlemen, I wish we had more time.

Senator Gorton?

Senator Gorton. I would like to follow up with Mr. Will. It seems to me at least from the reading of your statement, that you are quite at variance with Mr. Meral from the Department of Water Resources in your own State.

Am I correct in that? And if so, where do you critcize or disagree with the position which he propounded to us a few moments ago and can you give me any perceptions to why local agencies and the States would take a different view?

Mr. Will. I think part of the problem is that local agencies within the State of California are ordinarily fairly large, fairly sophisticated water supply agencies. They feel that they should play a role in this decisionmaking process.

One of the concerns that we do have, of course, is that our State Department of Water Resources is also a well managed, highly sophisticated agency, but they would be subject, I am sure, to complaints within our State legislature.

Every time there is an opportunity to split up the pie, so to speak, if there is a State grant through some Federal funding mechanism, that this could produce just exactly the same type of delays, the same political view of the issues as has been criticized at the Federal level.

We think that the final decision and the final mechanism used to reach that decision should be made at the Federal level.

Senator Gorton. Thank you, Mr. Chairman.

Senator Abdnor. Thank you.

Gentlemen, thank you for your time.

Our next panel is a group from the Sierra Club here in Washington; Mr. Alpern; Ms. McCullough, and Mr. Ela.

We are under a time constraint and we will remind you that we need to move along. Who wants to start out?

STATEMENTS OF BOB ALPERN, ROSE McCULLOUGH, AND JONATHAN ELA, THE SIERRA CLUB, WASHINGTON, D.C.

Mr. **Ela**. My name is Jonathan Ela, Midwest representative of the Sierra Club, and to my left is Robert Alpern from New York City, active in our regional conservation cities in the Northeast; to my right, Ms. Rose McCullough, from Lincoln, Nebr.

We each have written testimony.

Senator **Abdnor**. I don't believe we received yours, did we?

Mr. **Alpern**. No.

Senator **Abdnor**. I don't mean to be hard, but I am telling everybody, including the Governor, that if we don't have it in the future we will probably not let you testify. We would like to have it ahead of time.

In the future, keep that in mind.

Thank you.

Mr. **Ela**. Each of us will speak for a couple of minutes, but we want to congratulate this committee in what we believe is some pioneering research and efforts to establish a more rational water policy in the United States.

It is our opinion in the past there has been tremendous environmental damage, it was high time to assess our water policies, where we are going on these public investment decisions and straighten out some matters that need straightening out for a long time. Obviously in this 10 minutes we cannot cover the field. We highlighted several areas that are particularly important.

Of course, there are many others. We hope this brief appearance is simply a beginning of a sustained dialog between our organization in the environmental movement and this subcommittee as we try to reorient our priorities in the resource development.

Our first individual statement will be by Mr. Alpern, speaking of the urban needs for water supply and related matters.

STATEMENT OF BOB ALPERN

Mr. **Alpern**. I would like to focus on what appears as the final page, I think, in the material which you just received, that is the Sierra Club recommendation for a national urban water bank. I would like to just repeat what is on that page.

The Sierra Club recommends that Congress establish a national urban water bank to help meet the needs of water systems serving urban areas throughout the United States. With this concept, one, bank loans and loan guarantees would be available for implementation of the manned management projects, including measures for residential, commercial, industrial and institutional conservation and for substitution of subpolitical supplies where political supplies are not required, for implementation of projects to prevent the degradation of supplies, the structural, nonstructural measure sheds for management or when necessary to treat supplies to assure safe drinking water and finally, for implementation of measures to assure the integrity of existing storage transmission and distribution systems, the replacement, repair and when necessary the facilities providing bypass security in face of failure.

Loans and loan guarantees would not be available for development of a new supply for either single or multipurpose project or for other traditional programs, flood control, irrigation and hydropower; two, loans for up to 50 years on terms providing credit at the lowest reasonable cost consistent with sound business principles; three, projects would have to meet the requirements of the National Environmental Policy Act and other Federal environmental statutes and if the State so provided, would have to appear on a state priority list certified by the Governor; four, borrowers could include private and government-owned water supplies, suppliers and state water banks having purposes similar to the purposes of the national urban water bank.

All systens benefiting from bank loans or guarantees indirectly or through State water banks would be required to be financially self-sufficient, including an ability to repay all loans with interest from its water rights; finally, the bank would operate a revolving fund continuing to be replenished by loan repayments, ceilings for total loans and guarantees would be set for each state each year by formula perhaps along the lines of the population formerly proposed by Senators Domenici and Moynihan in Senate 621.

I am sure you will have questions about that and other elements of my testimony, but in order to provide time for the questions, we will move on to the other speakers.

Mr. Ela. I would like to briefly address the water transportation and particularly the concept of cost recovery through the implementation of the user charge.

There is a matter we have advocated through the years along with every state for the last 40 years and virtually every independent review of the question. We believe a waterway should be able to pay for itself through the collection of revenues from beneficiaries before any commitment is made to construct it; that these user charges should be sufficient to recover 100 percent of all new constructions for commercial waterway navigation projects and for the operation and maintenance of projects that are in place. That is probably the most important aspect of any user charge is the level of cost recovery. We have seen no persuasive evidence that that level of recovery should be anything less than 100 percent.

We believe, as you begin your deliberations on this, there should be a presumption that there should be a burden of proof on those who are advocating waterway development and imposing user charges in order to fight for the reduction from the 100 percent.

There are a number of other aspects of waterway user charges which I will touch upon. First of all, we don't believe there should be any extended, long phase-in period, particularly for new construction. The imposition of the user charge should precede any commitment to new construction, should take place immediately.

There should be presumably a phase-in period of a few years on the basis of equity for O. & M. recoveries. We don't have any fixed feelings on what mechanism should be used.

A large number have been suggested in the past, segment charges, ton mile fees, license fees, congressional tolls and so forth. All of these have merit. We agree with the approach utilized both in S. 810 and in Senator Domenici's amendments that would leave to the agency the mix of collection mechanisms. We think it would be unwise for Congress to commit itself to any one mix of collection mechanisms at the present time.

Finally, I think it has to be clear that the user charge is only one aspect of review of waterway development. The traditional means of review such as environmental impact analysis, matters of that sort, should continue in place and we believe Congress should continue to be responsible for authorizing segment by segment as they come up.

A major exception we take with Senator Domenici's otherwise very fine proposal is that it appears to us within the constraints of the revenues in the trust fund the corps has discretion to construct new waterways or expand existing waterways.

We believe that that is an essential congressional decision that shouldbe left to the Congress.

STATEMENT OF ROSE McCULLOUGH

Ms. McCullough. My name is Rose McCullough, and I would like to make a few points about past water development in the West and a proposal as to what direction we feel water development in the West ought to take in the future.

First of all, the history of water development in the West is in many ways impressive when one looks at the kinds of crops that are now growing in the West. It doesn't take a particularly close look. It appears that what we have done is beneficial but as one scrutinizes what has been done a little bit more closely, we realize that about 12 million acres have been reclaimed in the 17 Western States, but in fact there are also 12 million acres that are under water in the reservoirs that hold the water that irrigate other acres.

In addition to that, the land that has been brought into production in the West has often displaced production in other parts of the country.

There is a cost that we often forget to count as part of water development costs.

Some other costs that aren't so obvious are that this development in the West has largely taken place while ground water has been depleted. We have in many areas pumped ground water, mined ground water beyond its capacity to be recharged. That has accounted for much of the production that goes on in the high plaines region of our country.

This is something that we cannot continue on a sustained basis. We have also provided this additional agricultural production in the West by damming the region's rivers and streams to make water available on demand and have often forgotten the costs of damming those rivers.

In some cases we transport water long distances and this has both economic and environmental costs. An additional cost that we are just beginning to see in the West is the salination of our once-fertile lands. There may in fact be lands that are better farmed dry land rather than by irrigation because of the problems with salination of those lands.

The changes that we would like to propose in Western water developments are as follows:

We feel that just as in inland waterways and ports, that it is essential that 100 percent of the cost of any water development project, including those for irrigation and new supply be recovered from the beneficiaries and that the cost recovery include an interest rate that is realistic in the present market.

In addition, we feel that it is essential that any federally-assisted or federally-funded project, even when there is 100 percent cost recovery include provisions for active water conservation programs. We could do a lot more in the semiarid West with our limited water resource if we took care in the area of water conservation, including such things as irrigation scheduling, which in fact benefit all of us in that we can use our scarce water resources and at the same time they benefit the particular farmer because of energy pumping costs which are becoming very high in parts of the West.

Finally, if the water development is going to proceed, we feel that it is extremely important that the Congress, indeed this subcommittee, will begin to bring the bureaucracy back into control and we suggest that oversight by the Congress along with adoption of 100 percent cost recovery, including a reasonable interest rate from all water users, irrigators, as well as others, and an effective water conservation program should be a prerequisite of any future water development in the West.

Thank you.

Senator **Abdnor**. Thank you.

I am interested in your written statement, Mr. Ela, you said on page 2 that many waterway projects result in net economic loss to the Nation as a whole.

Do you have any specific evidence that would substantiate that belief? We would like to have it, I think.

Mr. **Ela**. I think there are quite a number of examples. I can mention them anecdotally here and provide in writing a more thorough analysis.

One that has been, I am sure, very much before your committee's attention has been Tennessee Tombigbee, where it would certainly appear that the costs of that project are going to exceed the benefits that will come out of it.

One general problem that has taken place in the planning for waterway projects is that it is a very simplistic formula the corps uses for determining cost and benefits. Basically, just looking at a rate analysis between the waterway rates given the project in place and the rates of the competing modes which is generally the railroad, this doesn't cover all of the factors under consideration.

There should be an analysis that covers all of the costs of providing service essentially, where the alternative investment dollars might better go and what the full impact on the alternative mode is.

One example comes to mind with the proposal, quite a number of years ago, to construct a canal from Lake Erie to the Ohio River where the research was done, it was realized in fact if the railroad in the area were given that same amount of money, it would offer to provide goods free; transport goods free for the entire life of the project if the canal were not constructed. I can provide you more detail on a number of these cases.

Senator ABDNOR. If you have any you would like to submit for the record, fine.

You also said if we have cost sharing, you suggest State and local governments would cover the cost 100 percent. Ms. McCullough, how would South Dakota collect for theirs when you in Nebraska get all of our power? We have done very well for you in flood control in Omaha, in Kansas City. How does the State collect from those people?

Ms. MCCULLOUGH. It certainly is a problem.

Senator ABDNOR. It sure is.

Ms. MCCULLOUGH. However, the irrigation projects in particular, it is——

Senator ABDNOR. That is a pretty broad statement. We collect on all projects 100 percent, there are a lot of benefits that come from any projects that you name. You name a water project, maybe there is something specific for irrigation. I don't know. But I think most have other benefits and other uses besides just irrigation, even where we have navigation.

We are dealing with users fees right now. You are going to put everything against the people who float craft up and down the water or are we going to suggest maybe there is some other benefits along the line that will help share in some of the costs of it?

Ms. MCCULLOUGH. I feel quite strongly that when we design a navigation project, we take a river system which has multiple uses and we basically say that we are going to make navigation a special purpose of a particular segment of the river, and that in that case it is perfectly appropriate for those who use that navigation system to pay all of the costs.

There may, in fact, be not only some incidental benefits that accrue to others, but there are substantial costs that accrue to others. For instance, in the Missouri River at the moment we are having a very serious problem trying to determine whether or not there is any way to mitigate for fish and wildlife damage that we have got. I feel very strongly that that is a cost of the navigation project and that users who have essentially been using that segment of the river free for many, many years ought to pay those costs.

Mr. ELA. Generally speaking, I am sure there are exceptions, but generally speaking the navigation development projects have been single-purpose projects. The ones that I am most familiar with, the upper Mississippi River, Illinois River, provide no flood control benefits, recreation benefits are incidental and probably are less than the recreational value of the river before the project was installed.

There is no hydro power development. They are in fact single-purpose projects for the benefit of the commercial navigation.

Senator ABDNOR. Mr. Alpern, you are proposing a whole new water system project, when you talk about this bank. Do you think this is the time we should get involved in that sort of thing? Money is really scarce right now. Do you think we should go off on a new program like this?

Mr. ALPERN. Let me say in that regard we are recommending this loan funding approach. We are really opposing the alternative of block grant funding.

In fact, we had to do that after long and careful reconsideration of past statements to this committee and as recently as March in the House in support of the block grant concept.

In fact, this committee is contemplating some radical departures and in that context it makes sense for us to make this proposal in its stead.

Senator ABDNOR. Thank you.

We have other questions we may submit for the record. I just have to move along here. We are under this time constraint.

Mr. ELA. I would like to add one final sentence, if I may; that is, I think in the past there have been two tremendous constraints ignored in the water policy. One is money. There simply isn't enough money to throw at the problems and the second is the supply of water. There isn't enough water to meet all of the competing demands. This to us means that in the future two elements must be built into all water policy considerations, one is cost recovery so the burden is no longer on the taxpayer, and the other is conservation so we can make the best use of available supply.

Senator ABDNOR. Thank you very much.

I wonder if we couldn't bring General Clarke and Mr. Weinert up at the same time with this panel and we will just keep right on going.

STATEMENTS OF CLIFF ATKINSON, JR., EXECUTIVE DIRECTOR, AMERICAN WATER WORKS ASSOCIATION, WASHINGTON, D.C.; FRANK KUDRNA, DIRECTOR, DIVISION OF WATER RESOURCES, STATE OF ILLINOIS, PRESIDENT, NATIONAL ASSOCIATION OF FLOOD MANAGEMENT AGENCIES, WASHINGTON, D.C.; NEIL SAMPSON, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS, WASHINGTON, D.C.; LT. GEN. FREDERICK J. CLARKE (USA-RET.), CHAIRMAN, WATER RESOURCES COMMITTEE, AMERICAN SOCIETY OF CIVIL ENGINEERS, WASHINGTON, D.C.; AND DONALD G. WEINERT, EXECUTIVE DIRECTOR, NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS, WASHINGTON, D.C.

Senator ABDNOR. I guess you gentlemen all get along with each other. I will bring you up together.

Mr. Atkinson, do you want to introduce your people and go from there?

Mr. ATKINSON. Mr. Chairman, my name is Cliff Atkinson, deputy executive director for government affairs for the American Water Works Association. This is a nonprofit association of some 34,000 members, of which 3,500 are water systems which supply 70 percent of the potable water used by this Nation.

We believe the sound water policy should have as its primary objective the provision of adequate supply of high quality water for the environment. A sound water policy must also provide basic guidelines in clearly defined areas of responsibility with respect to the supply to the user, various levels of government.

We are pleased that S. 621 will do this better than the present system that we are using. It should be noted that at our annual conference in St. Louis 2 weeks ago, there were extensive discussions with regard to the role of the Federal Government and particularly the propriety of Federal financial assistance to water supply.

Frankly, there is a significant disagreement among our members on this issue. Many feel that water supply systems should be self-sustaining. Others recognize the significant cost of rehabilitation, and improvement of older systems in many east coast facilities and in our small systems complying with the Safe Drinking Water Act feel that Federal financial assistance is appropriate and in fact necessary.

We believe that the responsibility of water resource projects, particularly those that have a primary purpose of providing water to the public, should rest with the echelon of government closest to the people that it benefits.

We agree with the philosophy expressed in S. 621 that the States should have greater responsibility for collection, but certainly the communities with regard to community water supply should participate in the planning.

Senator, I have 9 or 10 items that cover the role of the Federal Government. But I am going to skip all of those except the first two. We think continued cooperation with States and local and private agencies during preparation of general plans for water resources is highly necessary and S. 621 provides for this.

We also believe that coordination among Federal agencies engaged in water resources to eliminate competition and duplication and we support the approach taken by the administration with regard to this Cabinet Council on Natural Resources and thought that that should be given a try. We agree with the idea of financing large regional water projects by the Federal Government.

The role of the states, the association recommends that each state fully exercise the constitutional right and responsibility in the management of water resources and we feel that under 621 this could very well take place.

Local interests historically have served the population with community water supply efficiently and economically.

These agencies should continue to be responsible for managing systems as self-sustaining utility type enterprises. We believe that the above are vital elements of sound national water resource policy and recommends that legislation proposed by this subcommittee include these principles.

We believe that the water-consuming public can best be served by self-sustaining water utilities. Unfortunately, revenues are frequently deposited in general funds with a portion lost to other purposes such as trash collection, street repair and so forth.

We are having significant problems in many of the sections of the country with unaccounted for water, most of this due to aged distribution systems.

While the Association does not advocate grants, it nevertheless recognizes that there may be instances where systems need some assistance. We think this should be in the form of loans, or some pay-back method since water utilities is an income-producing entity.

The American Water Works Association also believes that the federal in-house planning and design associated with single-purpose water projects should not exceed 25 percent. We urge that the subcommittee recognize the wealth of technical resources for design and other services that are available through consultants in the United States.

In summary, we believe that the principles presented here today are the key to the sound national water policy involving community water supply.

The association is pleased to have had the opportunity to appear. I would be pleased to answer any questions.

Senator ABDNOR. Next time, Mr. Atkinson, we really would like to have your testimony 24 hours in advance because this is the first time we have seen it. We haven't got time to really get to the meat of what we would like to ask you and we do have that rule. So I appreciate that the other gentlemen did comply with the rule. The next time we may get a little tougher on this testimony time limit that we have.

Mr. Kudrna?

STATEMENT OF FRANK KUDRNA

Mr. KUDRNA. Yes.

I am representing the National Association of Urban Flooding Management Agencies which is a group of State and local agencies across the country involved in flood control, flood management and flood plain regulation activities.

First, we compliment the committee on these hearings. They are very much needed.

Our members could tell you a series of stories of flood control problems that exist. I come from illinois where I serve as the water resource director.

Over this past weekend we had devastating floods and I just returned from disaster declarations for the entire weekend. One example that relates directly to what you are doing exists in Illinois; that is, a Public Law 566 plan which I will use as an example. Again, any of our members can come up with additional ones. This plan was put together as a 566 project beginning in 1971. It has been in Washington since 1978. It is justifiable and has satisfied all the changing requirements over the years of the principles and standards, again supported by the Department of Agriculture, and it has not ever reached your committee. It has been held for the last year and a half in the Water Resources Council.

The problems we have had in Illinois and the deaths we have had, the relocations we have had over this last weekend could have been dramatically eliminated, at least over 90 percent of them, if this type of project could have moved forward. Again that is one example. I think there are numerous ones. There is obviously a need for movement of good sound well-formulated water resource projects. That is one case where we have gone in the direction of a Federal activity, Federal project through Public Law 566.

Another one I might briefly cite, there is another area devastated in Illinois this last weekend. We proceeded with State-only projects.

Senator ABDNOR. What?

Mr. KUDRNA. State-only projects where we are funding the projects entirely with State money. We are ready to go in the Joliet area that had 400 people relocated this last weekend, had one child who was killed in the storm. This project has not gone forward because of the 404 requirement, not something that we oppose, but the permit has been pending for a year. We are told it will be two more years before there is a decision on the permit.

That type of delay in water resource projects is just untenable to our organization. There needs to be movement in that direction also.

A couple of more brief points I will make. They are contained in detail in my testimony.

We have been very concerned about the Corps of Engineers interpreting Rule 33 CFR 238.7. This rule is what is called the 800CFS limitation or the flood control definition imposed unilaterally by the Corps of Engineers. This was done, of course, without consultation with the Congress or without an opportunity for public comment by any of the bodies. It precludes major involvement of urban flood control by the corps in many areas. We are very concerned about this. We think the Congress should address this.

Another area I think needs to be addressed is section 134(a) of Public Law 94-581. This is the provision that allows States and local governments not to be penalized for proceeding forward with local improvements in advance of an authorization, that had existed in the past, had expired.

If that needs to be reauthorized so that States and locals do anything for themselves, that will not be counted against them and will be counted as part of any project that has an authorization in the future.

The last item I would mention is S. 621. The National Association of Flood Management Agencies is watching this bill very carefully and thinks it has a great deal of promise. They do not have a formal position on it. In regard to Illinois, though, we do support the bill. We think this is a provision that could help States and locals to move forward with much-needed flood control projects in a much more timely fashion that currently exists.

I would be pleased to answer any questions.

STATEMENT OF NEIL SAMPSON

Mr. SAMPSON. I am Neil Sampson, representing the National Association of Conservation Districts.

Our local soil and water districts deal primarily with the problems related to agriculture, soil and water conservation, water projects. I must thank the chairman for expanding the panel. I think it would be a matter of some astonishment to our members had they seen me on an urban affairs panel up here today. [Laughter.]

As an interesting aside, however, Mr. Chairman, a matter not contained in my testimony, the testimony spoke of an urban water supply bank. That matter was brought before our policymaking body in February and was supported. If memory serves me right, you asked the witness the question was this the proper time. I would only say that had the weather been as unseasonably dry since February as it has been unseasonably wet in the Eastern United States, this would have been the time when the money would not have been the issue. I think that is an idea that has considerable merit that we may need to look at. In my testimony I make a couple or three points I would like to briefly summarize.

We do support the recreation of a water resources board, a policy board as proposed in some of the legislation that you are looking at.

We propose to restructure it with an independent chairman. We have faulted the Water Resources Council for a lack of independence. We don't think it is an experiment that failed so much as it is an experiment that hasn't really been tried. We would like to see this go on. We are reluctant to accept the fact that a Cabinet-level council is going to deal on a permanent basis with the congressional politics, whether involved with water projects, with the nitty-gritty terrible questions like, what kind of hydrology is used to calculate the merits of a project? I sincerely doubt that with Cabinet Secretaries or even Assistant Secretaries, much time is spent on that question, yet there needs to be an institutional memory in this town to help smooth those things out, keep the agencies dealing at least using roughly the same yardsticks. We have suffered greatly with the small projects, particularly under the Public Law 566 small watershed program, the research conservation and development program from having very small projects that have to be operated under the same principles and standards as the large public works projects.

We have attached an amendment to our testimony that suggests these small projects, particularly those that are administratively approved, would be exempted. We have experienced the kinds of delays that the gentleman ahead of me was talking about, 2- and 3- and 4-year delays on planning and 404 permits, other things. We have also experienced projects in which the costs of planning to the Federal Government exceeded the planned cost of installation, primarily because of all of these requirements. That is simply ridiculous. We simply cannot afford to spin our wheels that way. I believe the chairman will recognize the fact.

Finally, we do have some reservations about the proposal in S. 621 that funds appropriated for planning and construction of projects be routed through the Water Resources Council or its successor agency. We think that that should consider a policy issue and technical issues and not become a bookkeeper for the Water Resource Agency.

We appreciate the chance to provide this testimony and would be happy to respond to any questions either now or in writing later.

Senator ABDNOR. Thank you.

I assure you the entire statement of all of you gentlemen will go into the record. We only ask the questions that we are concerned about. After we go through the testimony, we may be submitting questions in writing.

We want to try to get everyone on. So if you don't mind, we will go ahead with General Clarke, followed by Mr. Weinert. Then we will come back for some questions.

STATEMENT OF FREDERICK J. CLARKE

General CLARKE. Mr. Chairman, thank you very much. I believe my statement did come in on time.

Senator ABDNOR. I am sorry. I didn't mean that for everyone.

Mr. CLARKE. In your news release announcing these hearings, you asked six questions and in my testimony I tried to respond to those specific questions.

I would like now just to summarize the answers that I have to the questions that you raised.

The first question was, Why has spending in uninflated dollars on water projects declined sharply in recent years and what can or should be done to reverse that decline? I point out that spending on water projects overall or spending on water has really not declined. It has really gone up, if you include the funds that have been spent for pollution abatement. More Federal funds have been spent for pollution abatement over the past two decades than have been spent on all of the development programs over the 150 years or so that Congress has been providing money for Federal funds for development. These funds have gone to different States than the traditional water development programs. We have seen this change in emphasis with heavy support by Congress for pollution abatement funds.

I should note there has always been the reluctance on the part of OMB regardless of which party was in power to fund the traditional water resource projects. But the factors of rising interest rates, growing environmental concerns, requirements to meet the social needs of the country have combined to reduce the emphasis on new water projects.

To reverse this trend, I think it is very difficult. The requirement is for additional money, which has to come from many sources and you have been discussing this, from Federal, State, local, and private sources.

Why does project development take so long? What impediments to development can be removed? Project development is paced by the amount of money provided annually to move projects along. If I might digress, I can recall projects where the total developmental costs would be perhaps $1 billion, which have been funded by the Congress at rates of perhaps $15,000 per year, which is not quite enough to answer all of the mail that comes in on the President.

The study time, the engineering time, the construction time can be shortened by applying additional funds but if the total funds remained constant, we could advance specific projects only at the expense of others.

There appears to be no shortage of authorized projects, but the problem of delay is basically one of priority of funding. This leads to your next question: How can past commitments for water development be fulfilled in a fair and rapid manner? By past commitments we understand the committee to mean the authorized but unfunded projects. This backlog varies in age from 5 years to more than 30 years and the reasoning that went into the justification for many of these projects has been outdated by developments.

The more recent projects are probably still valid with minor modifications. This problem is so large that it can only be dealt with on the local, the waterway or regional basis to evaluate the past commitments along with the current needs and commitments and some form of a river basin planning organization with authority, and I stress the words "with authority," to establish needs and priorities is required if a meaningful approach for the problem of past commitments is to be made.

With respect to your question about the involvement of States to a far greater degree in project consideration and development, ASCE has advocated strengthened water resource agencies, State participation in the regional basin planning organizations, and an advisory role for the States in the Federal policy.

How should priorities be established among various types of water projects? I suggest that the question should also be broadened to include priorities among regions of the country. When we considered the water policy initiatives proposed in 1978 by President Carter, we concluded that there is a need for establishment at the Federal level of an organizational structure with authority and status to formulate and recommend water resource policy and to provide leadership.

We recommended an independent agency with the members appointed by the President, confirmed by the Senate, including representation from the public, the States, and the local entities, and we believe such a group could assist in establishing priorities among the types and the regions, and these priorities would be for consideration by the administration and the Congress.

Should there be a change in cost sharing? ASCE has been in general agreement that there should be an increase in the participation by States in financing water projects. We do draw attention to the fact that the water policies for cost sharing were established for specific functions to achieve certain national goals or objectives.

Before one goes into an overall modification of the cost sharing, someone should be examining the goals and objectives which led to the present cost-sharing principles.

Thank you, Mr. Chairman.

We would be pleased to answer in writing any questions you may have.

Senator ABDNOR. Thank you, General Clarke.

Mr. Weinert?

STATEMENT OF DONALD G. WEINERT

Mr. WEINERT. Thank you very much, Mr. Chairman. I am executive director of the National Society of Professional Engineers which has as its membership 80,000 registered professional engineers across these United States, representing all disciplines of engineering.

On behalf of NSPE, I appreciate this opportunity to appear before you and speak on what we consider the most pressing national issue facing this country today. Water is a critical national resource and can no longer be viewed in puritan terms.

In 1978 we formed a high-level water policy task force of nationally recognized experts to study the problem of national water policy and based on their analysis to develop recommendations on a strategy to achieve a national comprehensive long-range water policy encompassing State, local, and regional needs.

That report has detailed recommendations both for the executive branch and for the Congress, and I would request that it be entered in the record. It is too detailed, of course, to go into within the time constraints of this hearing.

Earlier this year this report was issued and is now available. I do believe we provided on time 25 copies.

I would like to commend your subcommittee and the full committee for the work that you have done on S. 1095, which recognizes many of the Nation's glaring water problems and we believe sets a proper direction in seeking their solutions.

Specifically, you have addressed weaknesses of the Water Resources Council which was given responsibility but not authority to coordinate the varied and competing interests of the water-related agencies.

In establishing your National Board of Water Policy with an independent chairman, we feel you are taking a step in the direction of being able to rationalize these competing interests. However, we think that there are still some land mines in front of the Board that you are creating and unless they are addressed, it may suffer the same fate as the Water Resources Council. Specifically, we need to examine all of the laws and the regulations of the implementing agencies that pertain to water resources development. We specifically recommend that single or special purpose agencies without responsibility for water resource development be required to consider other water resource goals as well as their own in their planning.

Detailed analysis of all agencies whose regulations and policies affect water resource development is urgently needed, looking into their guiding regulations, statutory obligations for the purpose of determining where regulatory or statutory reform is required.

Unless this step is taken, the fate of the Board will in all probability be that of the WRC. What we have is a situation where we have responsible agencies for water resource development who are subject to the veto at every step of the way by a variety of other single or special interest agencies and somehow we have got to unravel that problem if we are going to move water resource development ahead.

We agree in philosophy, in principle, with S. 1095, that we do have some concerns about S. 621. You asked specifically why we address those concerns. I would like to make three points about S. 621. First, we are concerned about the degree of shift of responsibility to the State level implicit in S. 621 as has been mentioned by previous witnesses and discussed by you. We have concern that these States are prepared to accept these responsibilities. We are particularly concerned that water resource development tends to overlap State boundaries so often that it will be very difficult for States to deal with water resource problems strictly within their own boundaries. Also in S. 621 the States have been given veto authority over regional projects. Any one State can veto a regional project. We think that this bodes ill for execution of projects that are clearly in the national interest.

We are second very concerned in S. 621 about the means of allocating money. This has already been discussed, but I would like to touch on it.

Allocating moneys based on any formula other than the national needs and priorities runs the risk that we will spend our money on less important water resource development projects. I think we have got in our procedures and using your Board concept of this independent chairman to establish our national priorities, to see what is in the national interests, and to put our money where the national interest is, as I said at the very beginning, water is a national resource. It is a critical national problem.

The third observation is that I feel that the thrust of S. 621 is going to intensify the political nature of the decisionmaking at the State level. Relegating the planning and priority setting process for intrastate projects inside a State to the State and giving them a chunk of money is inviting them to generate a series of projects to use up that money independent of real need, based on any kind of a national criteria or a national priority system.

Mr. Chairman, I appreciate the opportunity to comment briefly upon this very important subject.

I would like to offer the resources of the National Society of Professional Engineers to your subcommittee at any time to assist you in this very important work. I will be glad to answer any questions.

Senator ABDNOR. I appreciate that very much and all of you gentlemen gave us some very helpful and thoughtful comments on the problems we have ahead of us in trying to reach some kind of legislation. We do appreciate it. I would like to ask a few questions. We will start with Mr. Atkinson.

Do you think Congress should have a role in setting policy? Do you think the Cabinet Council provides that?

Mr. ATKINSON. I certainly think Congress should have a role in establishing policy and I don't really perceive that the way they are organizing downtown would necessarily exclude the Congress.

Senator ABDNOR. I don't see them including us. I guess it is strictly their option. This doesn't say they will share or have to. Maybe we could do it through legislation or the appropriations feature of our Congress. But maybe we will receive additional information and go down with the Cabinet-level Council. But you have no concern about whether the Congress will be consulted?

Mr. ATKINSON. I don't see why not, Senator. I don't really know how that Council is going to work. But I would not think that they would take everything away from Congress and go off on their own. I don't see how they could.

Senator ABDNOR. Would you like to see the Congress at least have a role in this?

Mr. ATKINSON. Yes, sir.

Senator ABDNOR. I asked Mr. Alpern in the previous group if he thought we should be funding a new water activity when we really don't have enough money to go along with the ones we have. Do you think this is a good time to start out on new funding programs?

Mr. ATKINSON. As I said in my statement, our position has been that utilities should pretty much be self-sustaining and should not have to rely on grants or a program except under maybe unusual circumstances. But as I also said a number of our members in the big cities feel differently from this, that they need some assistance, that they think too much of it has been going, over the years, into the Western States, that now they are having some problems, that they think that they should get some assistance.

Senator ABDNOR. Thank you.

Let me ask Mr. Kudrna. You said on page 2 of your statement that you discussed the need to streamline authorizations and appropriations processes. I guess we could agree with you. How do you think that could be done?

Mr. KUDRNA. I think the example I gave you in Illinois, the little Calumet project, there needs to be a process so good well-formulated projects could get into the hands of the committee for review and answering. As I said, a process starting in 1971, it is now 10 years later, 1981 and the project has not made it through a committee yet.

That is the kind of problem that I think needs to be straightened out with some realinement.

Senator ABDNOR. We have a lot of other questions. Let me ask you quickly: Are you familiar with Senator Bentsen's bill, talking about deepwater ports, go ahead and build it and collect——

Mr. KUDRNA. Cost recovery and ports generally? Generally, yes.

Senator ABDNOR. How do you think that would work for flood control projects?

Mr. KUDRNA. In terms of recovery of flood control projects? I think cost recovery for flood control projects would be very difficult to achieve. I do support consistent cost sharing policies for flood control projects. I think there should be local participation and it should be uniform.

Senator ABDNOR. The Bentsen proposal this week could be used in Illinois. But they will soon forget about it as you go down the road. I realize that.

Mr. Sampson, you state that the non-Federal sources are currently funding 25 percent of the cost of construction and 100 percent of OM project costs. How were those costs calculated?

Mr. SAMPSON. That is, of course, just limited to those federally-assisted projects that are being done under Public Law 566. That is where the data came from. It did not cover water projects across the entire Federal spectrum.

Senator ABDNOR. You stated also that States should establish priorities within programs. You said since there is little evidence it can be done among programs, can you explain why this is so?

Mr. SAMPSON. I think it is just sort of self-apparent that the different water resource agencies running different types of programs, and my personal experience is in the West where we did deal with the Bureau of Reclamation, Soil Conservation, Corps of Engineers. Those projects each have slightly different criteria, different authorizing legislation, different points of focus. To try to compare priorities between them is sometimes like comparing apples and oranges. At the same time, to use Public Law 566 for example, the States could do a very good job, it seems to me, at looking at the various opportunities that suited the 566 approach and select priorities from between those opportunities. I think that is a far easier task and it doesn't raise the agency turf issues that selecting between the various types of programs seems to raise.

Senator **Abdnor**. The States can do it. How do you feel the Federal Government can do a better job?

Mr. **Sampson**. I don't know that they do a much better job but by controlling the purse strings they do a different kind of job. It seems to me that the Federal Government has to be able to look at navigation on the Mississippi, flood control in Illinois, irrigation projects in Idaho. If you view those from an overview, it is simply not possible in any State at all. I am not saying you are not doing a great job. But it is the only place where you have a chance to even think about it.

Senator **Abdnor**. Mr. Clarke, I appreciated your point, and the question we submitted to you. You stated in the past 20 years more Federal funds have been spent on water pollution abatement than was spent on water development during the past 150 years. Why do you think that has happened?

Mr. **Clarke**. I don't know. There is a whole revolution that took place with the environmental movement where there was great concern about the degradation of the environment throughout the country. It brought with it a tremendous support all the way across the country, State, Federal, Congress particularly was pushing, particularly the Senate, pushing heavy expenditures for cleaning up the waters of the country. I think it got such tremendous support because of the polluted waters of the country being largely in the area where the heavy population was. They were putting great emphasis on that.

Senator **Abdnor**. What do you think would happen if they ever went to the block grant concept and put the two together? Do you think you would see a change in that direction?

Mr. **Clarke**. If you put the two funds together in a block grant, developmental funds and pollution abatement funds, my own guess is you would find the dropping off in the expenditures in pollution abatement and increase in the funds being spent for development. That is my personal opinion.

Senator **Abdnor**. If you went to a block grant concept, would you endorse the idea of putting them all together?

Mr. **Clarke**. I don't think I would at the moment, sir. I would recommend that the planning be brought together much more closely. I think a lot more study is required before Congress can consider whether to put those funds into one pot. I think you would find it very difficult and add to the problems you already have in trying to deal with the Water Resource programs.

Senator **Abdnor**. Do you think if we just went along with something like the Domenici-Moynihan bill, do you think it would make more money available in time for projects than we are seeing today.

Mr. **Clarke**. Not particularly. I think as I pointed out in my statement, it would advance the authorization because you would eliminate steps in the authorizing project. I doubt it would make any more money available than available under the normal processes that Congress follows.

Senator **Abdnor**. The States would bring a little more pressure to bear, maybe.

Mr. **Clarke**. There is a possibility you might get more money through increased participation with the States in cost sharing.

To the extent that happens, there would be more money made available. But Congress has, of course, the most difficult job in the world in the administration, participates in the decisions of how do you allocate national resources to all of the many, many needs of the country. Of course, water is just one of them.

Senator ABDNOR. Let me ask you one last thing in regard to that. Should large-scale pollution control projects be authorized by Congress?

Mr. CLARKE. This is very difficult to answer, because I have in the back of my mind, let me say, a large scale of the North River pollution abatement plan up in New York City. Should it be authorized by Congress?

At the moment, I would say probably not, sir. I do think it has to be a part of the planning process. It comes to the Congress through the testimony. You will be hearing about it through the testimony of the EPA as to how they were putting their money out. I think this would give Congress a chance to voice its opinion as to how the money should be spent. It is a difficult question.

Senator ABDNOR. Yes, it is.

Thank you.

Mr. Weinert, I am stepping right along here.

You have been very patient.

On page 2 of your testimony, you express your concerns about the need for an independent staff. I anticipate the Corps staff will be the Board's staff, but at times the Board can contract out specific technical tasks. Do you have some suggested language that could clarify our intent? If you want to suggest something, I would like to have you provide it to the committee.

Mr. WEINERT. I will do so.

Senator ABDNOR. That would be good because I think probably our thoughts are along the same lines, if you think it needs to be cleared up.

Mr. WEINERT. I will do so.

Senator ABDNOR. On page 3, you discuss the need to allocate development funds based on needs. How can we determine what those needs and priorities are? Do you have some suggestions on that?

Mr. WEINERT. Yes.

It needs to start as General Clarke made the point about regional basins and we feel that needs to start at that level with States and the Federal Government working together to plan the needs of each regional basin. That is then integrated at the national level by your Board, and by the Congress to insure that we have a national set of priorities and needs that consider things like energy, agriculture, all of the other things that relate to water, that water relates to.

Once those needs are established by the river basin commissions, which are given the authority to make decisions, by the way, not the way they have been in the past, not seeking consensus, but with the authority to make majority decisions, then we establish a national list of priorities based on the amount of money that the Congress feels should be available for these particular priorities, we would then begin to execute that national list of priorities. It has to be based on the needs of the Nation and all water-related needs. It cannot be done just purely on areas, saying everybody should get *x* number of dollars for water in their particular location. There might not be any real pressing needs in those locations.

Senator ABDNOR. How can the Basin Commission make decisions on priorities? Do you think we can?

Mr. WEINERT. The way they have operated in the past, of course those constituted under the 1965 act could not, because they had to seek consensus but I think groups, to use another name, if you will, because of the sort of bad image that they have had in the past, regional groups studying the entire region with the States, each State must participate, with the Federal agencies and Government also participating, analyze that situation on a basin-by-basin status, establish priority needs of that basin. It might be irrigation in one basin, it might be water supply in another basin. It might be energy related in another basin. We will need a tremendous amount of water in the synfuels industry. That is why I agree with earlier comments that we have to do this on a region-by-region basis, but I think those basin commissions can establish those priorities and the States will have a voice in it. Every State will have a voice in it. Sometimes a State is not going to agree with the majority and you are just going to have to make a majority decision anyway. That is where we fell apart in the past. We have been unable to make a majority decision on what is regionally necessary. We just have to put aside those parochial views and view water as a national resource of great importance.

Senator ABDNOR. Gentlemen, your testimony has been very helpful. If we had had another hour, I am sure we could have used it.

We thank you very much for your attendance today.

Thank you.

[Whereupon, at 12:20 p.m., the subcommittee adjourned to the call of the Chair.]

[Statements supplied for the record follow:]

STATEMENT OF

SCOTT M. MATHESON
GOVERNOR OF UTAH

ON BEHALF OF

THE NATIONAL GOVERNORS' ASSOCIATION
AND
THE STATE OF UTAH

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

U. S. SENATE

JUNE 18, 1981

SENATOR ABDNOR, MEMBERS OF THE SENATE SUBCOMMITTEE ON WATER RESOURCES: I AM HONORED TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY ON THE SUBJECT OF REFORM OF AMERICA"S WATER POLICIES AND PROGRAMS. I AM HERE AS CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION SUBCOMMITTEE ON WATER MANAGEMENT. MY REMARKS CONSTITUTE A COMBINATION OF ADOPTED NGA POLICY AND MY OWN VIEWS ON OUR NATIONAL WATER MANAGEMENT SYSTEM. MR. CHAIRMAN, I ACKNOWLEDGE AND APPRECIATE THE LEADERSHIP YOU HAVE PROVIDED IN THE AREA OF WATER RESOURCE MANAGEMENT AS A MEMBER OF CONGRESS AND NOW AS A UNITED STATES SENATOR. I LOOK FORWARD TO A PRODUCTIVE RELATIONSHIP WITH YOU AND YOUR SUBCOMMITTEE AS THIS NATION GRAPPLES WITH THE COMING CRISIS IN WATER.

IN THE EARLY 1780'S, A DISPUTE BETWEEN VIRGINIA AND MARYLAND OVER IMPROVEMENT OF NAVIGATION ON THE POTOMAC RIVER BECAME THE IMMEDIATE CAUSE FOR THE CONVENTION THAT DRAFTED THE CONSTITUTION OF THE UNITED STATES. IT IS AN INTERESTING IRONY THAT A DISPUTE OVER A WATER WAY PROVIDED THE CATALYST THAT MADE 13 STATES INTO A UNION.

OVER THE NEARLY 200 YEARS SINCE THE CONSTITUTIONAL CONVENTION AND PARTICULARLY SINCE 1935, LARGE NUMBERS OF FEDERAL WATER PROGRAMS HAVE BEEN ORGANIZED TO RESPOND TO A LARGE NUMBER OF WATER NEEDS. NAVIGATION, IRRIGATION, FLOOD CONTROL, HYDROELECTRIC POWER GENERATION, MUNICIPAL AND

INDUSTRIAL WATER SUPPLY, SOIL CONSERVATION, DRINKING WATER SAFETY, WASTE TREATMENT, FISHERIES, AND RECREATION PROGRAMS HAVE BEEN ESTABLISHED IN ALMOST AS MANY AGENCIES. MANY AGENCIES OPERATE UNDER A NUMBER OF SEPARATE AUTHORIZING LAWS, FUNDING PROCEDURES, AND REPAYMENT RULES DEPENDING ON WHETHER A GIVEN NEED WAS SEEN AS ORIENTED TOWARD LARGE PROJECTS OR SMALL, RURAL AREAS OR URBAN, WATER QUALITY OR WATER QUANTITY, RESEARCH OR APPLICATION, OR SOME SPECIAL SITUATION SUCH AS FLOODING ON THE LOWER MISSISSIPPI.

IN THE EARLY 1980'S, WE HAVE FAR MORE THAN 13 AGENCIES IN THE FEDERAL GOVERNMENT, MANY DIFFERENT GROUPS MEETING REAL NEEDS BUT LACKING THE COMMON PURPOSE AND COORDINATION NEEDED TO BE EFFECTIVE IN ACHIEVING THEIR MUTUAL GOALS. THE 1980s ARE ALSO PROVING TO BE YEARS FOR SERIOUS RETHINKING OF NATIONAL PROGRAMS. WE NEED TO TAKE ADVANTAGE OF THIS ATMOSPHERE TO FORMALIZE A FRAMEWORK THAT CAN MAKE A MULTITUDE OF DIVERSE AGENCIES AND INTERESTS INTO A TRULY NATIONAL WATER PROGRAM IN WHICH ALL LEVELS OF GOVERNMENT CAN WORK TOGETHER MORE EFFECTIVELY.

THE TIMING IS OPPORTUNE FOR TECHNICAL AS WELL AS POLITICAL REASONS. MANY RIVER BASINS AND AQUIFERS ARE APPROACHING FULL DEVELOPMENT IN TERMS OF AVAILABLE WATER SUPPLY, MOST NOTABLY THE OGALLALA AQUIFER WHICH PROVIDES AN IRREPLACEABLE WATER SUPPLY FOR MUCH OF THE FERTILE GREAT PLAINS. WE NEED NEW OPERATING MODES AS WATER SUPPLY MOVES FROM DEVELOPMENT TO

REALLOCATION. THE COST OF 511 BILLION 1975 DOLLARS ESTIMATED BY THE NATIONAL COMMISSION ON WATER QUALITY AS THE COST OF IMPLEMENTING PUBLIC LAW 92-500 REPRESENTS FAR MORE RESOURCES THAN THE COUNTRY CAN AFFORD, PARTICULARLY WHEN THERE IS SERIOUS DOUBT THAT MUCH OF THE EXPENDITURE WOULD REALLY ACHIEVE BASIC ENVIRONMENTAL GOALS. WE NEED SERIOUS RETHINKING OF OUR COMMITMENT BY ASSOCIATING COSTS WITH GOALS AND DECIDING PRIORITIES ON WHAT WE WANT TO DO.

THE NATIONAL WATER COMMISSION, CREATED BY ACT OF CONGRESS IN 1968 TO REVIEW NATIONAL WATER RESOURCES PROBLEMS REPORTED ITS FINDINGS BACK TO CONGRESS IN JUNE, 1973. THE NEARLY 600 PAGES OF THEIR REPORT AND HUNDREDS OF DETAILED RECOMMENDATIONS WERE CONDENSED INTO SEVEN RECURRING THEMES, AND THE FIRST OF THESE WAS THAT "THE LEVEL OF FUTURE DEMANDS FOR WATER IS NOT INEVITABLE BUT DERIVES IN LARGE PART FROM POLICY DECISIONS WITHIN THE CONTROL OF SOCIETY," A THOUGHT THEY IDENTIFY WITH THE WORDS OF RENE DUBOS, "TREND IS NOT DESTINY." WE MIGHT ADD THAT TRENDS BECOME DESTINY WITHOUT CONSCIOUS EFFORT TOWARD REDIRECTION.

THE TRENDS IN NATIONAL WATER PROGRAMS NEED SERIOUS RETHINKING. THE PLETHORA OF AGENCIES AND PROGRAMS NEED TO BE RETHOUGHT IN TERMS OF COMMON PURPOSES AND APPROPRIATE COORDINATING MECHANISMS FOR WORKING TOWARD THESE PURPOSES. AT THIS TIME, NO GREATER CONTRIBUTION COULD BE MADE TOWARD IMPROVING THE EFFECTIVENESS AND EVEN REDUCING THE COST, NOT JUST THAT

WITHIN GOVERNMENT BUT TO A NATION BEARING THE EXPENSE OF CONFORMING TO A MULTITUDE OF OFTEN UNNECESSARILY STRINGENT AND INCONSISTENT REGULATIONS, OF WATER RESOURCES MANAGEMENT.

WE NEED TO RISE OUT OF THE RUTS FORMED BY PAST TRENDS, LOOK AT WHERE WE ARE GOING, AND PLAN A ROUTE TO GET US THERE. IF WE ARE GOING TO BE ABLE TO DEAL WITH THE FRIGHTENING DIRECTIONS OF PRESENT TRENDS TOWARD WATER SHORTAGE, NEW POLLUTION PROBLEMS, AND WATER LIMITATION TO FOOD AND ENERGY PRODUCTION, WE ARE GOING TO ALL HAVE TO WORK TOGETHER. THE NATIONAL GOVERNORS' ASSOCIATION IS READY TO WORK WITH THE CONGRESS AND THE ADMINISTRATION IN GETTING THE JOB DONE.

WHAT SPECIFICALLY NEEDS TO BE DONE? THE PROBLEMS ARE MANIFOLD, FAR TOO MANY AND IN MANY CASES FAR TOO TECHNICAL TO EXPOUND HERE IN DETAIL. WHAT I CAN DO HERE IS REVIEW SOME MAJOR PROBLEM THEMES AND DRAW SOME GENERAL RECOMMENDATIONS FROM THEM. FIRST, AS TO THE PROBLEMS:

1. THE THREE MAIN THRUSTS OF THE ENVIRONMENTAL MOVEMENT ARE A) PRESERVATION OF NATURAL WATER AND SPECIES, B) IMPROVEMENT OF MAN'S LIVING ENVIRONMENT AND RECREATION OPPORTUNITIES, AND C) ENHANCEMENT OF PUBLIC HEALTH. IN PRACTICE THEY HAVE TRANSLATED INTO A DOUBLE-HEADED DRIVE TO A) HALT CONSTRUCTION OF THE LARGE PUBLIC WORKS OFTEN NEEDED FOR WATER DEVELOPMENT AND B) MANDATE HIGH DEGREES OF WASTEWATER TREATMENT. THE FIRST HEAD PUTS WATER QUANTITY DEVELOPMENT IN CONFLICT WITH

WATER QUALITY MANAGEMENT AT A TIME WHEN CRITICAL RESOURCE ISSUES MEAN THAT WE SHOULD BE WORKING CLOSER TOGETHER. THE SECOND HEAD IS PRODUCING A PATCHWORK OF TREATMENT PLANTS, SOME BUILT TO EXTREMELY HIGH STANDARDS AND OTHERS HOPELESSLY INADEQUATE.

2. THE NATIONAL WATER QUALITY COMMISSION REPORT CLEARLY STATES THAT PROGRAMMED IMPLEMENTATION OF THE 1983 TREATMENT GOALS FOR WATER TREATMENT PLANTS WOULD BE ONLY PARTIALLY EFFECTIVE BECAUSE OF POLLUTION WASHED INTO STREAMS AND LAKES BY URBAN RUNOFF, SEWER LEAKS, AGRICULTURAL WASTES, AND OTHER NONPOINT SOURCES. THE TOTAL PROGRAM COST OF $511 BILLION IS NOT PRACTICABLE EITHER FINANCIALLY NOR IN TERMS OF THE EXPERTISE WHICH CAN BE MARSHALLED IN SO SHORT A TIME. THOUGHTFUL GOAL DEFINITION, PRIORITIZATION AND BUDGETING IS REQUIRED. THE PROCESS NEEDS TO USE AN UNDERSTANDING OF HOW POLLUTION CAUSES ENVIRONMENTAL DAMAGE TO IDENTIFY LOW COST ALTERNATIVES AND HIGH PRIORITY GOALS TO BE PURSUED FIRST.

3. THE WATER QUALITY CONTROL PROGRAM IS NOT BEING THOUGHTFULLY PLANNED WHEREAS WATER DEVELOPMENT AND MANAGEMENT PROGRAMS ARE HAMPERED BY SUCH DETAILED PLANNING REQUIREMENTS AND DRAWN OUT PROCEDURES THAT PROGRAM ACTIVITY HAS BEEN SLOWED TO THE POINT THAT INFLATION RATES EXCEED CONSTRUCTION RATES AND AUTHORIZED PROJECTS ARE FALLING BEHIND TO THE POINT WHERE MANY MAY NEVER BE COMPLETED.

MR. CHAIRMAN, THE CENTRAL UTAH PROJECT, WHICH IS INTENDED TO PUT TO BENEFICIAL USE UTAH'S SHARE OF THE COLORADO RIVER IS CAUGHT IN THIS COST SPIRAL PROCESS. IN ORDER TO COMPLETE THIS WATER PROJECT THE STATE OF UTAH WOULD BE WILLING TO CONSIDER A REASONABLE COST SHARE IN RETURN FOR SUFFICIENT FUNDING TO COMPLETE THE PROJECT BEFORE IT IS DEVOURED BY THE TWIN GOBLINS OF INFLATION AND INERTIA. BUT IF THE STATES ARE WILLING TO ASSUME ADDITIONAL COST-SHARING TO COMPLETE THE APPROXIMATELY 38 BILLION DOLLAR BACKLOG OF BUREAU OF RECLAMATION PROJECTS, THEN IT IS ONLY REASONABLE THAT THE STATES SHOULD HAVE A MORE SUBSTANTIAL ROLE IN PROJECT DESIGN AND OPERATION. THIS IS AN ASPECT OF WATER RESOURCE MANAGEMENT THAT I WOULD LIKE TO SEE INCLUDED IN S. 621 WHICH THIS SUBCOMMITTEE WILL CONSIDER AS A NOVEL APPROACH TO WATER RESOURCE MANAGEMENT.

4. THE PL 92-500 PROGRAM IS BEING IMPLEMENTED BY EFFORTS TO ELIMINATE ALL POLLUTANT DISCHARGE AND TO ENFORCE NATIONAL UNIFORM WATER QUALITY STANDARDS. A PLANNING PROCESS HAS BEEN REPLACED BY NATIONALLY UNIFORM STANDARDS AND CRITERIA THAT CANNOT IN HONESTY BE ACHIEVED.

5. IN THE ABOVE SITUATION, EPA HAS HAD TO RETREAT TO PROGRAMS THAT ARE MORE REALISTIC THAN THE LANGUAGE OF THE ACT WOULD INDICATE. THE PLAIN MEANING OF THE ACT HAS TO BE REINTERPRETED IN THE INTEREST OF COMMON SENSE AND JUSTICE.

WE WOULD BE BETTER ADVISED TO HAVE LAWS THAT MEAN WHAT THEY SAY SO THAT ADMINISTRATORS CAN KNOW WHAT THEY SHOULD DO AND BE HELD RESPONSIBLE FOR ENFORCING THE LAW.

6. WATER RESOURCES QUANTITY AND QUALITY PROGRAMS NEED TO BE COORDINATED TO MAXIMIZE EFFECTIVENESS. EXECUTION OF A GIVEN PROGRAM IS GREATLY INFLUENCED BY COST SHARING ARRANGEMENTS. LOCAL INTERESTS ARE MOTIVATED TOWARD PROGRAMS FOR WHICH THEIR COST SHARE IS SMALLEST, NOT THOSE IN THE BEST PUBLIC INTEREST. CONSCIOUS MANAGEMENT IS NEEDED TO AVOID PIECEMEAL DECISIONS AND TACTICAL DELAYS WHICH PRODUCE NON-DECISIONS.

7. MANY OF OUR LAWS AND LEGAL INSTITUTIONS, BOTH STATUTORY AND JUDGE MADE, WERE ESTABLISHED IN THE 19TH CENTURY TO MEET THE SOCIAL NEEDS OF THAT ERA. ACCORDING TO THE NATIONAL WATER COMMISSION, LAWS IN THE WEST OFTEN DISCOURAGE WATER TRANSFERS TO MORE VALUABLE ECONOMIC USES AND PLACE TOO LITTLE ATTENTION ON PROTECTION OF INSTREAM FLOW VALUES. IN THE EAST, WATER LAW IS INSUFFICIENTLY DEFINED TO PROVIDE A SATISFACTORY FOUNDATION FOR RESOURCE PLANNING. IN BOTH REGIONS, FEDERAL LEGISLATION MUST BE CONSIDERED ALONG WITH STATE WATER RIGHTS IN OVERALL WATER REALLOCATION, AND CONSIDERABLE CONFUSION EXISTS AT THIS INTERFACE.

AS TO RECOMMENDATIONS FOR DEALING WITH THESE PROBLEMS, FOUR MAIN EFFORTS SEEM DESIRABLE AT THIS POINT.

1. WE MUST MAINTAIN AND PROMOTE EFFECTIVE CHANNELS FOR COORDINATING WATER ACTIVITIES AMONG FEDERAL AGENCIES AND BETWEEN THE FEDERAL AND STATE (AND LOCAL) GOVERNMENTS. THE COORDINATION NEEDS TO BE DONE IN A SERIOUS WAY AND BE STRUCTURED SO AS TO BE ABLE TO DEAL WITH SUCH PROBLEMS AS THE FEDERAL GOVERNMENT'S INTRUSION INTO WHAT HAVE TRADITIONALLY BEEN STATE MANAGEMENT DOMAINS AS OUTLINED IN ONE OF THE 12 "FUNDAMENTAL PRINCIPLES FOR A NATIONAL WATER POLICY" UNANIMOUSLY ADOPTED BY THE GOVERNORS IN 1978. THE SYSTEM NEEDS TO BE ABLE TO DEVISE SINGLE PLANS FOR DEALING WITH WATER QUANTITY AND QUALITY ISSUES SIMULTANEOUSLY. CONGRESS NEEDS TO MAKE CLEAR THAT COORDINATED PLANNING IS SERIOUSLY MEANT. COST SHARING RULES NEED TO BE APPLICABLE TO ANY MANAGEMENT MEANS FOUND OPTIMUM AND NOT JUST TO CERTAIN ONES. THIS RECOMMENDATION WOULD STRENGTHEN COORDINATING MECHANISMS AMONG AGENCIES AND DOES NOT PROPOSE INTEGRATION INTO A LARGE CONTROLLING AGENCY. THE RIVER BASIN COMMISSIONS AND THE WATER RESOURCES COUNCIL ARE USEFUL COORDINATING TOOLS, BUT THEIR MANANGEMENT NEEDS TO BE RESTRUCTURED TO AVOID FEDERAL DOMINANCE AND OVERLY NARROW PERSPECTIVES. I COMMEND YOU, MR. CHAIRMAN, FOR RECOGNIZING THIS IN S. 1095 UNDER YOUR SPONSORSHIP WHICH WOULD PROVIDE BETTER COORDINATION THROUGH RIVER BASIN COMMISSIONS AND A NEW NATIONAL BOARD OF WATER POLICY.

2. IN ORDER TO OVERCOME PRESENT INSTITUTIONAL BARRIERS OF OBTAINING AUTHORIZATION AND FUNDING OF WATER QUANTITY (E.G., CORPS OF ENGINEERS) AND WATER QUALITY (EPA) PROGRAMS, PROCEDURES

NEED TO BE DEVELOPED FOR AUTHORIZATION AND FINANCIAL SUPPORT OF COMBINED PLANS. THE PROBLEMS CAUSED BY UNCOORDINATED ACTIONS AND THE POTENTIAL SAVINGS FROM COORDINATED ACTIVITIES ARE TOO GREAT FOR US TO ACCEPT TWO SEPARATE PLANS AS THE BEST THAT WE CAN DO. THE NEED IS EVEN BROADER WHEN ONE ALSO CONSIDERS COORDINATING POTENTIAL AMONG THE FULL SPECTRUM OF FEDERAL AND STATE WATER PROGRAMS. OF SPECIAL INTEREST TO THE STATES IS BETTER COORDINATION OF STATE AND FEDERAL FUNDING AND REGULATORY PROCEDURES WITHIN PROGRAMS WHERE THE ACTIONS OF ONE AFFECTS THE OTHER.

3. SOUND ECONOMIC PRINCIPLES SHOULD BE APPLIED IN WATER DEVELOPMENT DECISIONS, OPERATION OF EXISTING FACILITIES, AND DIVIDING COSTS BETWEEN BENEFICIARY GROUPS. IN APPLYING THESE PRINCIPLES TO FEDERAL-STATE COST SHARING, FEDERAL FINANCIAL PARTICIPATION IS NEEDED WHERE INTERSTATE OR INTERNATIONAL WATERS ARE INVOLVED, WHERE MULTIPURPOSE DEVELOPMENT PRODUCES INTERSTATE BENEFITS, OR WHERE NONFEDERAL INTERESTS ARE UNWILLING OR UNABLE TO FULFILL A NATIONAL GOAL.

I HAVE BEEN INTRIGUED WITH THE OBJECTIVES AND PROCEDURES OF THE LEGISLATION INTRODUCED BY SENATOR DOMENICI AND SENATOR MOYNIHAN IN THE LAST SESSION OF CONGRESS AND RE-INTRODUCED IN THIS SESSION AS S. 621. I AM CONVINCED THAT THE STATES MUST BE PREPARED TO SHARE THE COSTS OF WATER RESOURCE DEVELOPMENT UNDER A CONSISTENT AND COORDINATED FORMULA. HOWEVER, I BELIEVE THAT IT IS CRITICAL THAT THERE BE STABILITY IN THE LEVEL OF

FUNDING. THE BLOCK GRANT ALLOCATION PROGRAM AND STATE RESPON SIBILITY FOR PRIORITIZATION AND AUTHORIZATION OF WATER PROJECTS ARE DESIGNED TO PROMOTE COST EFFECTIVE WATER RESOURCE DEVELOPMENT PROGRAMS. I AM CONVINCED THAT IT WOULD BE COUNTER-PRODUCTIVE TO THIS GOAL IF STATES ARE NOT ABLE TO RELY ON A STABLE LEVEL OF FUNDING AT THE FEDERAL LEVEL. THE PROCESS OF WATER RESOURCES PLANNING AND FINANCING REQUIRES THAT STATE POLICY MAKERS AND ADMINISTRATORS BE ABLE TO DETERMINE WELL IN ADVANCE THE LEVEL OF FEDERAL PARTICIPATION AND THEN BE ABLE TO RELY ON THAT LEVEL OF FUNDING.

4. FEDERAL WATER PROGRAMS AND INSTITUTIONS NEED TO BE REVISED TO MEET MODERN NEEDS. MODERN LAWS DEALING WITH GROUNDWATER ARE PARTICULARLY LACKING. SPECIFIC NEEDS ARE PRESENTED BY THE NATIONAL WATER COMMISSION.

# # #

A COMMON THEME CAN BE FOUND IN THESE RECOMMENDATIONS. OUR NATIONAL WATER PROGRAM IS NOT EFFECTIVELY ORGANIZED IN TERMS OF THE STRUCTURE (PLANNING AND FINANCING ARRANGEMENTS) NEEDED TO SOLVE EMERGING WATER PROBLEMS. WE CAN MUDDLE THROUGH THE COMING YEARS, OR WE CAN DO SOME CREATIVE THINKING AND RESTRUCTURING. THIS CONGRESS AND THIS SUBCOMMITTEE WOULD MAKE A LANDMARK CONTRIBUTION TO OUR NATION'S FUTURE BY MOVING QUICKLY AND CREATIVELY.

THE NATIONAL WATER RESOURCES POLICY AND DEVELOPMENT ACT OF 1981 (S. 621 (DOMENICI-MOYNIHAN))

By

Gerald H. Meral, Ph.D., Deputy Director
Department of Water Resources
The Resources Agency
State of California

Thank you for this opportunity to testify on S. 621 (Domenici-Moynihan), the National Water Resources Policy and Development Act of 1981. As you know, in our prior testimony before this subcommittee we endorsed the concepts incorporated in this bill. In recent testimony before the California Water Commission, Ronald B. Robie, Director of the California Department of Water Resources, expressed renewed support for the Domenici-Moynihan proposal.

The reality of these tighter budgetary times makes our endorsement even stronger today. For regardless of a particular funding level for federal participation in water projects, we think that cost-sharing is the best way to go about it. The hodgepodge of confusion, contradiction, waste, and delay which characterizes today's laws, programs, and processes for federal water resources development is no longer acceptable.

Our support of cost-sharing principles comes from experience in our State. We have taken part with the Federal Government in water project cost-sharing ventures. The San Luis unit of the Central Valley Project is the most notable example. Here, the State provided 55 percent of construction costs while the Federal Government provided 45 percent.

Presented to the Water Resources Subcommittee, U.S. Senate Committee on Environment and Public Works, June 18, 1981, in Washington, D.C.

The State's flood control subvention program, through which State and local governments now share in the non-federal costs of many flood control projects, is another example of effective cost sharing. As amended by the California Legislature in 1969, at the insistence of then Governor Reagan, this program requires the State and local agencies to share the costs of lands, easements, rights-of-way, and relocations necessary for levee and channel projects. The State pays 75 percent of the costs of lands, easements, and rights-of-way, and 90 percent of the relocation costs. The local agencies make up the difference.

Two bills actively supported by the California Department of Water Resources which were enacted into law by the 96th Congress illustrate our commitment to the principles of cost-sharing. H.R. 4084, (P.L. 96-495), authorizes construction of the first phase of mitigation facilities for the Suisun Marsh, one of the largest remaining wetlands in California and which has been adversely affected by water diversions by both State and federal water projects. The act provides for 50-50 cost sharing between the State and the Federal Government. In this case, we are also advancing construction funds to the Federal Government. The other bill, H.R. 507, (P.L. 96-335), conditions construction of facilities to mitigate damage to fisheries caused by the federal Trinity River Project on State participation in construction and implementation of the sediment removal portion of the project. The project itself resulted from a unique federal-state-local task force.

We are currently engaging in two major studies on a 50-50 cost-sharing basis with the U.S. Bureau of Reclamation. The first, is a five-year, $10 million dollar study of the potential for enlarging Shasta Dam on the Sacramento River. The purpose of the project enlargement would be to provide additional water and power to the federal Central Valley Project and the State Water Project. The study will cover engineering and environmental concerns related to increases in project size from the current 4-1/2 million acre-feet to a potential 15 million acre-feet. The second is a joint study, subject to the availability of Bureau funds, of the engineering, economic and environmental effects of constructing the Los Vaqueros Dam and Reservoir in south central Contra Costa County. This project has potential as a joint-use facility among federal. state and local agencies. The project could provide additional water supplies as well as flood control, recreation, and fish and wildlife enhancement.

In expressing our support for the cost-sharing concept, we must make it clear that our state legislatures will ultimately decide how to handle the non-federal share. The Congress must act with certainty and precision so that states can decide such matters as how to fund the non-federal share and whether the State or local agencies or both should contribute. We have attached figures to show the possible magnitude of these costs.

Not just any version of cost-sharing will do. We did not, for example, fully support the cost-sharing legislation which preceded the original Domenici-Moynihan proposal. This was largely because no action was ever taken on our recommendations for improvements. Our biggest objection was the glaring omission of a meaningful state role in planning, constructing, and operating future water projects. Early cost-sharing legislation guaranteed the states nothing more than increased costs.

S. 621, with certain changes, is a well-reasoned and creative departure from both the existing situation and from other cost-sharing plans. It provides a rational method for deciding which projects should be constructed. It also requires a meaningful commitment to projects by state and local agencies. We especially like the priority list system whereby major responsibility for project selection is shifted to the states, the provision for automatic authorization of projects found to be needed by both the state and the appropriate federal agency, and other improved opportunities for meaningful state involvement. S. 621 should move needed water projects towards more timely completion dates, a welcome departure from the current pattern of lengthy delay. Furthermore, these changes would be accomplished within a framework which would emphasize suitable attention to existing environmental laws, including the National Environmental Policy Act.

Another excellent feature of Domenici-Moynihan is its departure from rigid adherence to benefit-cost analysis. We have long believed that such analyses far too often merely reflect the wants and prejudices of preparing agencies, and also suffer from inherent weaknesses which frequently lead to the construction of less than optimal projects. The best way to determine the real economic viability of a water project is the willingness of the water and power users to pay the costs of the water and power produced by the project. The traditional benefit-cost analysis can also encourage selection of the highest cost alternative.

We were particularly pleased to note that in S. 621 the definition of "projects" eligible for block allocation funding has been expanded to include funding of nonstructural management plans as well as structural facilities, and that the new bill expressly provides that a federal water resources agency may contract with a state for preparation of a feasibility study.

Title II of the bill would restructure the Water Resources Council. While there are numerous ways that the Council's currently unsatisfactory structure and authority can be altered, providing five independent public appointees to go along with the Secretaries of the Army, Interior, and Agriculture, plus the Administrator of the EPA, appears to represent a workable alternative to the totally federal-agency makeup of the present Water Resources Council. Because of the pivotal role that the Council would play under Domenici-Moynihan in the event that state and federal authorities disagree on the desirability of a particular project, it is essential to insure the Council's independence and objectivity. Likewise, we applaud the proposed creation of a State Advisory Committee. In our view, the Council should be required to consult with the State Advisory Committee and with the states before the promulgation of rules and regulations.

Although S. 621 represents a definite step forward, it remains our belief that it can be further improved. Some additional items which should be provided are:

1. A requirement that federal agencies solicit the early involvement of states in the planning process. Our experience with the Corps and Bureau has shown us a critical need for early state influence and participation. Having to comment on already prepared feasibility reports is completely unacceptable. If a state is to participate, the project planning should be timely, meaningful, and certain--on the basis of a Memorandum of Understanding and with full state involvement in the day-to-day planning process.

2. A provision that any federal project on which cost-sharing is required will be constructed and operated in conformity with state water rights laws. This means that Congress, in advance

of construction and in accordance with the Supreme Court decision in California v. United States, will specify from the beginning that the project is to be constructed and operated in conformity with state water laws.

3. A provision that no dam be constructed by the Federal Government unless the state dam safety agency certifies the project is safe. The state may waive this requirement. The Federal Government should pay the same dam safety fees as private dam owners.

4. A requirement that contracts with users for 75 percent of the power and water supply from water and power development projects be entered into before construction starts. This avoids building projects prior to resolving such critical questions as where the water is to be used and for what purposes.

5. Inclusion of water conservation programs and waste water reclamation facilities as projects eligible for federal cost-sharing.

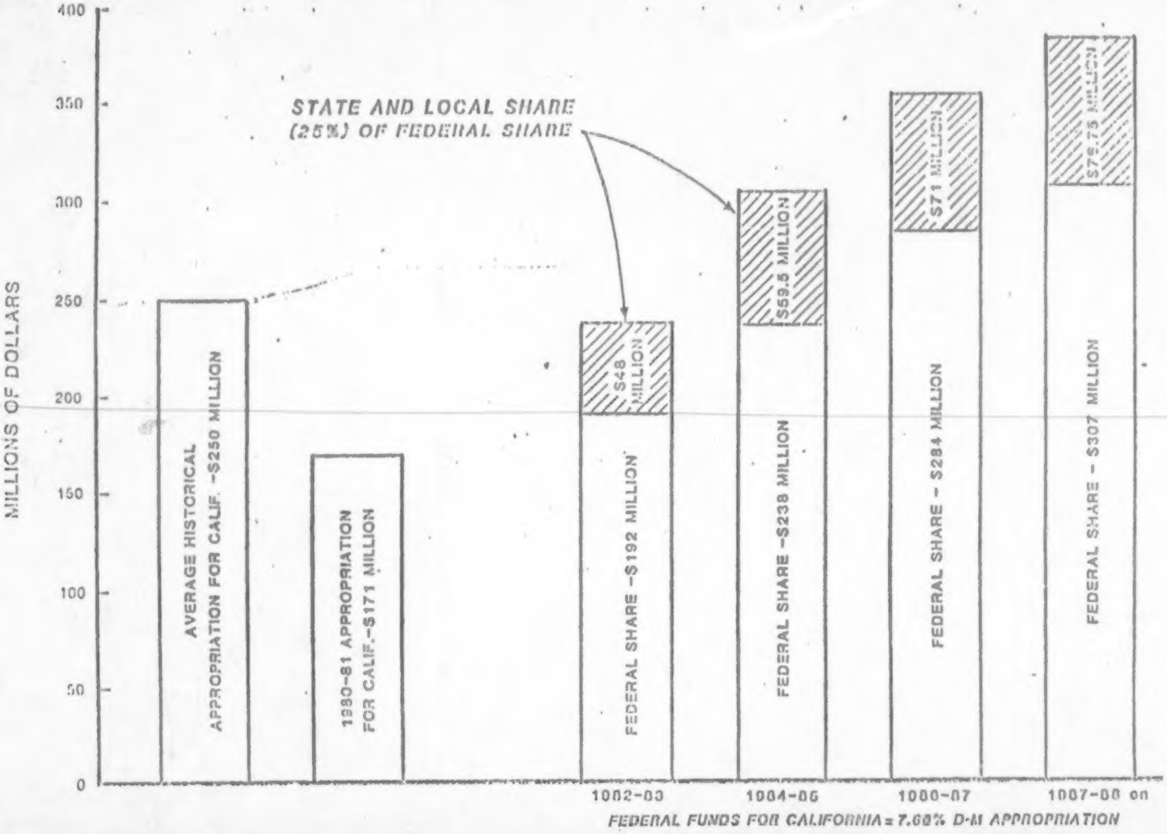
Language incorporating these suggested changes is attached as Appendix A.

A major consideration under S. 621 is whether already authorized projects should be subject to cost-sharing. Both the Reagan and Carter Administrations suggested that they would look more favorably on new construction starts if state or local interests offered cost-sharing voluntarily. We believe that in the case of projects authorized but not started cost-sharing should apply. These projects should be treated the same as those still remaining to be authorized. Otherwise, the full effect of S. 621 would be deferred at least two decades.

Projects already started and not needing further authorization should not be subject to cost-sharing greater than already required unless, as the bill provides, the Governor of the affected state so requests. It would not be fair to stop project construction and demand non-federal funds in the absence of local agreement to provide such funds.

In closing, I would like to summarize why cost-sharing, subject to the conditions of S. 621 as we would amend it, is a good thing. First, the state role in planning water development would be enhanced, and federal projects would fit better into state water plans. Second, state legislatures would become more involved in the process of project selection. Third, only the most necessary and useful projects would be constructed, and those with fewer benefits would be deferred. Fourth, if our amendments to S. 621 are adopted, there will be greater federal compliance with state water law, a goal which Californians have sought for decades. Finally, water conservation and reclamation programs would become eligible for federal funding. At present, California expenditures in water conservation greatly exceed federal expenditures in our State for this purpose. S. 621 would help correct this problem, and would put the federal water program on a much sounder footing.

Figure 3. CALIFORNIA AND FEDERAL SHARE OF CONSTRUCTION FUNDS UNDER DOMENICI-MOYNIHAN COMPARED TO HISTORICAL APPROPRIATIONS



APPENDIX A

PROPOSED AMENDMENTS TO S. 621 AS INTRODUCED
MARCH 5, 1981

AMENDMENT 1

On page 4 of the printed bill, line 20, after "Act", insert:

the agency shall enter into a Memorandum of Understanding with the appropriate State or States which shall, at the option of the appropriate Governor or Governors, provide for full State participation in the formulation, development, and prosecution of such study, and

AMENDMENT 2

On page 5, strike out lines 4 through 7 and insert:

mutually agreed to by the State or States and the appropriate Federal water reources agency or agencies, to comprise a study task force which shall, at the option of the appropriate Governor or Governors, consist of roughly equivalent numbers of State and Federal participants. Such State or

AMENDMENT 3

On page 11, line 1, after "(k)" insert:

Contracts with users for 75 percent of the water and power supply from water and power development projects shall be entered into before commencement of construction.

AMENDMENT 4

On page 11, after line 22, insert:

(n) Water rights for all projects shall be acquired under the provisions of State water law and projects shall be operated as specified by State water law unless an Act of Congress specifically directs to the contrary.

(o) No dam shall be constructed by a Federal water resources agency or agencies unless it is certified to be safe by the appropriate State dam safety agency. The State dam safety agency may waive this requirement. The Federal agency or agencies shall pay the same dam safety fees as are required of private owners under State law.

AMENDMENT 5

On page 17, line 20, after "conveyance," insert:

water conservation, waste water reclamation,

STATEMENT OF

J.W. O'MEARA
EXECUTIVE VICE PRESIDENT
NATIONAL WATER RESOURCES ASSOCIATION

before the

SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

June 18, 1981

Mr. Chairman and Members of the Committee:

My name is Pat O'Meara, and I am the Executive Vice President of the National Water Resources Association. NWRA is a confederation of the State water associations in the 17 Reclamation States and Hawaii. For many years, our association was known as the National Reclamation Association, but we changed our name about 10 years ago to underscore the fact that as a group we were interested in all water activities and not just the programs of the Bureau of Reclamation.

We are organized to promote the development, control, conservation, preservation, and utilization of the water resources of the Nation. We have worked, and we continue to work, to increase the development of irrigated lands. We endeavor to cooperate with and assist, when possible, the coordination of Federal agencies dealing with water resources, and we strive to preserve the rights and interests of the States regarding their water resources.

We wish to commend Chairman Abdnor for setting these hearings to examine our national water policy, or, perhaps, more accurately, the lack of a national water policy. We thank the Chairman for giving us the opportunity to express our views on water policy, and to discuss some of the current issues that need prompt consideration and early resolution.

We did not get the opportunity earlier to testify on S. 1095. We did, however, present a statement to the Water and Power Resources Subcommittee of the House Interior and Insular Affairs Committee on a similar bill, H.R. 3432. We recommended against the enactment of that bill.

Our basic concern is that H.R. 3432, much as with S. 1095, is that it proposes to continue a revised Water Resources Council. We think the WRC is a nobel experiment that failed, and we are perfectly willing to accept President Reagan's action to establish a cabinet council on natural resources in its place.

We feel that this council will provide a far stronger policy and decision-making group than is proposed in either S. 1095 or H.R. 3432. We have every hope that the council, which will be supported by a strong advisory task force with representation from most of the involved departments and agencies, will be able to accomplish the objectives the WRC could not achieve.

Some of the river basin commissions that were authorized by the Water Resources Planning Act have been quite effective. The program opened the way for basinwide consideration of interstate deliberation and cooperation leading to more effective and efficient river management. The river basin commissions have a continuing role to play, but we believe it is encumbent upon the States to assume that responsibility because the States will be the beneficiaries of such undertakings. We would urge the cooperation of the Federal agencies involved in water resource development with any continuing activities of river basin commissions.

The biggest problem we have encountered with the abolishment of the WRC is the loss of State planning money. Some States have fiscal resources that would enable them to adequately maintain their planning functions, but others have relied on Federal funding to assist them in this work. The short notice of the funding cut back will make it difficult for some, and virtually impossible for others, to establish alternative revenue sources. Many legislatures already have adjourned and will not meet again for 2 years. It is unfortunate that the Federal assistance was not phased out over time rather than through an almost immediate cut off. Some of the States will face serious disruptions in their planning programs and, in many instances, trained, experienced personnel will be lost.

Interior Secretary Watt has said that he does not plan to establish a national water policy. In its place, he proposes to develop a mosaic of policies that are directly related to various regions of the country. We applaud this plan because the water resources and water usage across the length and breadth of this land are so diverse as to necessarily make any national policy so general that it would be meaningless.

We were certainly pleased by the statements presented to this committee last week by William Gianelli, Assistant Secretary of the Army for Civil Works, and Garrey Carruthers, Assistant Secretary for Land and Water Resources of the Department of the Interior. We want to repeat a part of the statement of Assistant Secretary Carruthers because it is fully compatible with the policy of our association. In his statement here on June 8, he said: "Our policy will be founded on the premise that water rights belong to the States."

Mr. Chairman, I would like to take this opportunity to thank and commend Senators Domenici and Moynihan for introducing S. 621. This does not imply an endorsement of the bill, but we feel it has served to focus attention on many of the problems we face in water resources development. In that regard, it already has had some significant impact. I understand that the Corps of Engineers and the Bureau of Reclamation are jointly working to develop a plan to streamline and expedite the time frame of project authorization, appropriation, and construction. Eliminating much of the project time lag is one of the objectives of S. 621.

We think it is appropriate, as S. 621 proposes, for the States to provide a percentage of project funding.

One of our concerns is the proposed forumla for allocating Federal funds to the States. The size and population of a State is not the only criteria for water project activities. I want to repeat that I said this was one of our concerns. We do not have a better suggestion to offer at this time, but we note H.R. 3432 proposed also to consider financial need and the need for improved water management for the determination of each State's allotment.

Whatever the final determination of State allotment under the block grant program authorized by S. 621, we would like to offer the following suggestion for your consideration.

Rather than block grants to every State, in lieu of a better name, let me propose a block revolving fund. Under this concept, the States could use grant funds for flood control or pollution control projects, but vendable items, those that provide a specific service, such as water distribution systems, would repay the water fund, both capital and interest.

Under the Reclamation program in the West, about 87 percent of the Federal investment in water projects is repaid to the U. S. Treasury by direct beneficiaries. We are perfectly content to continue this payback arrangement, but S. 621 would change our present loan system to grants. We don't think that is necessary.

As we continue the water resources development of the West through the Bureau of Reclamation, we think it is time to extend the authorization of the Bureau of Reclamation to operate in all 50 States of the Nation. Either that, or amend the authorization of the Corps of Engineers to remove some of the restrictions that now apply to Corps projects.

It is time to look at the basis of water project feasibility. The current Principles and Standards are under review. As they currently are drafted, they stand as a deterent to water project construction rather than a development guideline. The benefit/cost analysis needs to be revised and updated to reflect the current need and value of water. The present system ignores many project benefits that should be recognized.

These changes can occur, some are underway. The interest of this Committee in water policy is evidence of that. We look forward to working with the Congress and the Administration to effect what Assistant Secretary Carruthers described as a new beginning in water resources.

SUMMARY STATEMENT OF
B. JOSEPH TOFANI, PRESIDENT
WATER RESOURCES CONGRESS
BEFORE THE
SUBCOMMITTEE ON WATER RESOURCES COMMITTEE
ON
PUBLIC WORKS AND TRANSPORTATION
U. S. HOUSE OF REPRESENTATIVES
JUNE 18, 1981

Mr. Chairman and Members of the Subcommittee.

I am pleased to have the opportunity to appear before this Committee as a representative of Water Resources Congress - an organization which traces its beginnings back to 1901.

But first, I want to express my appreciation for the leadership taken by you and this Committee in developing and reporting out a bill amending the Water Resources Planning Act.

With 46 years experience in water resources, I have witnessed many changes usually associated with accomplishments. But this has not been the case during the past several years. The water program seems to lack purpose and direction and has been going steadily down hill. On this pessimistic note, I might add that these hearings have an urgency about them that underscores the need to reverse this trend of declining water resource development.

Priorities may shift, but we can predict that water demand and water use will continue to increase. These demands are bound to generate conflicts. Hopefully, we will be able to resolve the conflicts in order that we may achieve a proper balance in meeting not only water requirements but other requirements as well.

In today's climate of high inflation, need for a balanced budget and increased expenditures for national defense, our water program faces a period of marking time. But perhaps we can turn this period to our advantage by concentrating on the urgent need to develop a water program and policies to meet the water requirements of our nation.

Taking a page from our history, we must avoid the mistakes of the past like the piece-meal solutions that have been the trademarks of settling every water crisis from the battles in the West over the water holes to the devastating floods of the Twenties, Thirties and Forties.

We must continue to provide and improve facilities to serve existing water needs as well as future needs. We cannot rely solely on conservation, defined by some as less demand and less use. We must adopt true conservation, which is wise use.

In carrying out water programs down through the years, we placed too much emphasis on benefit-to-cost analysis in making decisions, failing to set adequate goals and objectives for a water program in today's society. The legislative products of the Sixties and the Seventies such as NEPA, clean water, wild rivers, scenic rivers, trails, fish and wildlife, endangered species and many others all were accompanied by new ground rules. No benefit-to-cost analysis, but rather total programs with goals and objectives. Why not take a page from these legislative acts -- acts which did not develop programs in a piece-meal fashion but by a total program approach which has been very effective in these areas.

Wouldn't it be more logical to develop a water program and the type of agency required to develop the procedures and policies to implement the program. Once we achieve this goal, we can turn our attention to implementing a total water program.

I believe there are many concepts on how the water development, conservation and management problem should be addressed. This Committee has addressed it in one fashion, the House Public Works and Transportation Committee has another solution, the Administration still another. I want to suggest still another which does embody many of the aspects of the three solutions I just mentioned.

I suggest a two phase solution. First, we develop river basin plans or river basin blueprints to be the basis for a water program. To accomplish this phase, I believe there should be a lead agency. An agency that has nationwide capabilities and an organization in being with the necessary expertise. I believe such an agency is the Army Corps of Engineers. That organization developed over 200 such plans from 1927 to the early 1940s which formed the basis of the water development that occurred in the ensuing years. Since that time, there have been many river basin planning concepts attempted but all failed simply because there were too many participants attempting to develop a blueprint for the basins. We must have one agency responsible, however it should obtain input from the other Federal, State, local and private entities. This agency would have no responsibility in the policy-making decisions only as a partner in a Water Policy Board. It could assign to other agencies or states certain aspects of the development of the plan but it should put the final plan together. Then there would be no alibis or excuses.

At the same time, we should have a Water Policy Board. There is no doubt that the Federal Government will continue to participate in one way or another in water resources investment. It then follows that the agencies that plan, construct and manage water projects should be on the Board -- Agriculture, Army, Interior and the Environmental Protection Agency. This agency should be headed by an independent chairman who would be appointed by the President with the advise and consent of the Senate. It should also have a State or Regional advisory group so that the local agencies would have an input. The basic responsibilities of this Board would be to review the basin plans, set priorities, recommend who should build the projects, who should pay, in short, make the necessary policies for a total water program.

The programs, policies, guidelines, priorities, who should pay and other policy determinations should have the approval of both the Executive and Legislative Branches. It should be the agency that acts as the overall coordinating body.

I believe strongly, in an independent chairman who has the necessary stature to confer with the President, his advisors, cabinet members, the Congress and the Governors. If our water crunch is as bad as the experts tell us, then we do need an independent full-time chairman to address the problem.

You may have noted in my remarks that I have not suggested cabinet members on the Board. I just mentioned the Federal agencies that should be involved. The Secretaries of the several departments, no matter how able or dedicated, just would not have the time to devote to the urgent water problems that we are facing. The Assistant Secretaries for Water would be the logical representatives of the Board. They no doubt would reflect the broad views of their superiors.

Concerning River Basin Commissions, I believe these Commissions should serve as the principal coordinating body of the river basin for which it was formed, reviewing the program developed for the basin and submitting its comments, recommendations and priorities to the policy agency. It should not duplicate the work accomplished in the first phase. The composition of the river basins should be limited to those Federal and state agencies that have a responsibility in the development and the implementation of the program for the basin. The makeup of each basin commission would vary from basin to basin depending on the water and related requirements. If commissions are not formed, then we should have interagency organizations.

Concerning grants to states, I believe grants should be continued so that states can continue to participate through the River Basin Commissions or Interagency group. I am not in a position to recommend the total funds to be appropriated for such a purpose. Since members of the River Basin Commission or Interagency groups would be from the Federal and state agencies, the grants to the states and the Federal funds appropriated to the agencies would be used to operate the Basin Commission and the Interagency group.

In conclusion, let me emphasize that we have become too involved in the details of the program but not the program itself. We have spent too much time on the nuts and bolts and overlooked what the objective or the goal of a water program should be. I believe if we develop a water program for each of our major river basins, the details which concerned us for so many years would soon fall into place.

Time is running out. We are not making full use of our water resources, while our nation and population continue to grow. Water resource development is not only lagging, it is grinding to a halt. Our economy will follow if we don't soon produce a program to support the adequate development of water supplies to meet the needs of this nation.

Thank you.

STATEMENT OF THE
ASSOCIATION OF CALIFORNIA WATER AGENCIES
TO THE
SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

June 18, 1981

presented by

ROBERT P. WILL
WASHINGTON COUNSEL

The Association of California Water Agencies appreciates this opportunity to testify before your Subcommittee on your overview of existing national water resources policy and water problems. The Association is a State-wide organization of public water districts and municipal water departments representing service of over 90 percent of the surface waters of California to urban and agricultural users.

We wish to commend the Subcommittee for reviewing these issues and considering means by which the Federal Government can respond to the needs of every region of the country for a national water policy. Our experience over the past few years has been one of frustration in seeing long-standing Federal programs bogged down in endless review and reevaluation processes, effectively preventing the planning and implementation of water projects essential to orderly economic growth. Recognition of the value of sound water development is now becoming Nation-wide following last year's water shortage problems in many areas of the East and prospects for more problems this year in many regions of the country.

The planning and construction of even simple water supply projects today takes close to a decade under the best of conditions, and the absence of clear goals and simple procedures, applied consistently, makes it impossible for individual water supply agencies to make the decisions necessary to protect the needs of their service areas. The long lead time necessary for project implementation requires clear direction and, particularly, stability in programs and procedures.

While we have been concerned recently on the direction of Federal water programs, we do want to commend the committees of Congress, such as yours, with jurisdiction over the Corps of Engineers, the Bureau of Reclamation, and the Soil Conservation Service, and these agencies themselves, for a long and distinguished record. These projects have saved lives and property from floods, furnished water for people and agriculture, improved transportation, conserved water and land, provided recreation, generated power--a great share of America's economic life has resulted from the benefits of these projects. In fact, with the growing recognition of the values of irrigated agriculture, you may wish to extend the jurisdiction of the Bureau of Reclamation Nation-wide so that every area can benefit from its expertise.

We do not believe that a major departure from the traditional relationships with the Federal Government is necessary. In the water supply area, local water agencies, the States, and the regional and national offices of Federal agencies have worked closely and cooperatively in planning projects and programs for congressional approval and construction. Changing that traditional process so the State legislatures and State administrations take over important parts of that function adds another layer of Government to the process, and will complicate and lengthen rather than simplify and shorten the current approach.

Responsible agencies at all levels of Government and the general public have adequate opportunities to participate in the process. While it may be desirable for local and State planners to play a more active role in the early identification and formulation of projects, the process should not be encumbered by a more complicated approach.

We also recognize that all regions of the country need to participate in Federal water programs. Allocations of funds must be made to achieve the most widespread benefits and serve every area suffering serious deficiencies in public works programs. Care must be taken in the development of any formula to allocate funds, however, to avoid limitations on projects that may be essential but cannot be accomplished within fixed funding limits. Flexibility should be provided so that needs can be met regardless of region.

California water agencies appreciate the current fiscal problems of the Federal Government and do not object to cost sharing. Repayment has always been an element of Federal water supply programs and water supply agencies expect to participate in costs. Perhaps the best example is the jointly developed San Luis Dam and Reservoir where California State water project contractors pay more than half the construction and operation costs of this valuable project. Long delayed projects, such as the Mid Valley Canal of the Central Valley Project, which is essential to relieve an annual ground water overdraft of more than 2 million acre feet in the San Joaquin Valley, which produces 25 percent of our Nation's table foods, is the type of project where the beneficiaries expect to share in costs. Again, fixed formulas may not be appropriate, but rather flexible guidelines appear desirable.

Again, we appreciate the Subcommittee's interest in getting our national water programs back on track and wish to assure you of our cooperation.

TESTIMONY OF JONATHAN ELA, SIERRA CLUB

before

The Water Resources Subcommittee
Senate Committee on Environment and Public Works
Regarding WATER TRANSPORTATION ISSUES

June 18, 1981

HEARINGS ON WATER POLICY, PORT DEVELOPMENT,
AND INLAND WATERWAY DEVELOPMENT

My name is Jonathan Ela, and I am the Midwest Representative of the Sierra Club. It is an honor to represent our 210,000 members in discussing questions of waterway transportation with this Subcommittee.

There are three major matters of public policy regarding waterway transportation facing this Subcommittee:

--Should there be an increased federal involvement in the financing, constructing and planning for deep water ports, particularly for the purposes of exporting coal?

--What additional investments in the nation's shallow draft waterway system should be authorized by the Congress in the near future?

--What additional cost recovery mechanisms should be put in place to assure an efficient transportation system that is not disproportionately taxpayer financed?

The Sierra Club's views on the first of these topics have been separately addressed during these hearings by Mr. Neil Goldstein.

The second requires relatively little attention at this time. There have been a number of bills introduced into the 97th Congress that authorize major new expansions of waterway navigation capacity on the Ohio River System and elsewhere. We presume that there will be separate hearings on these specific proposals, and will be prepared to give our views at the appropriate time.

There is, however, a troublesome line of argument that runs through many of these legislative proposals. Many bills we have seen this year allege a primacy and importance for waterway development projects in order to exempt these projects from environmental, judicial, and even Congressional review. Procedures have been suggested that would negate the beneficial scrutiny provided by the National Environmental Policy Act; projects are to be shielded from judicial review for any claims short of Constitutional grounds; the administering agency is to be given a free hand to disburse enormous amounts of money on major projects without receiving further Congressional authorization.

Clearly, we cannot accept any such provisions. We believe that they are being promoted by the waterway industry purely in order to serve their own interests, that there is no conceivable public policy argument to uphold awarding waterway transportation projects a unique status among governmental and social endeavors, and that if implemented they would make a shambles of the nation's programs for environmental protection and of our entire national transportation system.

Indeed, we believe that many waterway projects result in a net economic loss for the nation as a whole. As this Subcommittee well knows, water projects have been subjected to endless claims and counterclaims regarding their economic soundness. This leads to the third of the major areas in which this Subcommittee has an interest, the question of cost recovery mechanisms. Not the least important reason for adopting water project cost recovery measures is to test the various economic arguments advanced by project proponents and opponents. Project beneficiaries should be willing to bear the cost of projects that are in fact economically sound; those projects that cannot secure the financial support of the beneficiaries can be assumed to be equally uneconomic for the taxpayers.

In the field of waterway transportation the Sierra Club has long advocated waterway user charges. There are two basic reasons for our position. First, we believe that the nearly free ride being enjoyed by the waterway industry artificially attracts commerce to river systes with multiple values, and that the consequence is environmental deterioration that does not even have a valid economic justification. Second, we believe that many proposed new waterways would fail the economic test mentioned above, and that the result would a major decrease in investment in new segments. This decrease in investment would give a reprieve to important river biological and recreational systems that would otherwise be doomed.

. The Sierra Club believes that a properly constructed user charge system would be comprised of the following elements:

--100% of all waterway operation and maintenance costs would be recovered from users. It must be understood that operation and maintenance costs include all expenditures that are made necessary by the waterway improvement whether or not those costs lead to an additional benefit to the commercial waterway improvement itself. For example, it is clear that there are major additional expenses that must be undertaken on both the Missouri River and the Upper Mississippi River in fish and wildlife mitigation, improved dredging practices, and similar activities in order to salvage those rivers and reverse a trend that if allowed to go unchecked would cause them to be nothing more than murky ditches. These costs must be considered part of the navigation project and must be recovered through O & M user charges, for they would not have been incurred were it not for the conversion of the rivers from a natural system to a commercial waterway.

--100% of all new waterway construction, and all measures to expand capacity of existing waterways, whether structural or nonstructural, should be recovered from users.

--The user charge for new construction and expansion should take effect upon enactment of the law, and should include all work not actually completed and paid for as of that date. There should be a reasonable phase-in period of the O & M user charge of not more than six years.

--The user charge should be collected through a variety of mechanisms, the precise formulation to be determined by the administering agency on the basis of equity, efficiency of administration and effectiveness in collecting revenues. Such mechanisms might include license fees, ton mile fees, segment charges, congestion tolls, and the like.

--Unless recreation was a premeditated, integral project purpose, recreational craft should not have to participate in the user charge program. In almost all instances waterway improvements designed for commercial purposes are a hindrance, not a benefit, to recreational boaters: they should not have to pay. In the few cases where recreational boaters do benefit, that benefit is incidental to the project and should not be considered in the cost allocation.

--A user charge must be viewed purely as a cost recovery mechanism, and not as a substitute for other kinds of environmental or policy review. Even where waterway improvement and maintenance is economically justified, as evidenced by the willingness of the users to bear the cost, there may well be environmental or social factors that should lead to a decision against the project.

We specifically object to any trust fund provision that permits the Corps to expend monies with any increased discretion over current statutory arrangements. The public trust in managing and allocating our public waters is far too important to be delegated in fundamental ways by the Congress to the Executive Branch.

With these points in mind we would like to comment specifically on the two proposals before this Subcommittee, S. 810 and Senator Domenici's set of amendments to S. 810. Both are excellent proposals with which we generally concur, but each has certain provisions to which we would take exception.

While in many respects these two proposals are similar, they contain fundamentally different concepts for the timing of recovery for new projects. S. 810 apparently envisions recovering new project costs over the life of the project, with a built in discount rate for comparing present and future dollars. The Domenici amendment calls for user charges on a "pay as you go" basis. Construction of a new project could only take place if the Inland Waterways Trust Fund contained sufficient monies to cover the year by year construction costs.

We believe that both approaches have merit, and do not at this time recommend one over the other. It is important that which ever is adopted conform to the criteria spelled out above, and that there be no future "forgiveness" should the quite stringent provisions result in denial of a waterway proposal.

S. 810 recovers the full cost of operation, maintenance and new construction. The level of recovery is perhaps the single most important feature of any user charge proposal, and we heartily concur with the 100% provision.

S. 810 provides for agency discretion in establishing a collection mechanism. We agree with this approach.

S. 810 provides for immediate implementation of the program, a feature with which we concur.

Section 4 of S. 810 is confusing, and appears to reduce the effect of the entire bill. It appears that this section is an attempt to arrive at a general formula for allocating navigational costs and benefits to projects that are at least arguably multiple-purpose in nature. For no apparent reason there is an immediate 10% forgiveness even where the project is admittedly only for purposes of navigation. In addition, clause (3) could be interpreted as a means of avoiding such costs as fish and wildlife mitigation made necessary by the navigation project.

Some formulation of allocation to the navigation sector is clearly necessary. Most waterway projects are 100% for navigation, and other claimed benefits prove upon examination to be spurious. We believe that all waterway projects should be assumed to be 100% for navigation unless the Corps makes the following findings:

--There was one or more additional benefits explicitly included in the project description and calculation at the time the project as authorized; and

--The additional benefits have actually materialized since authorization, can be quantified, and at least offset any losses that may have occurred in the same sector.

Where the Corps can make such a finding it should be required to come back to the authorizing Committees in Congress for ratification, with a plan for cost recovery from non-navigational beneficiaries for the non-navigational costs.

S. 810 provides for a realistic interest rate for long term project amortization. The Sierra Club agrees with this provision.

In addition to the major conceptual difference in new project recovery, the amendment offered by Senator Domenici deviates from S. 810 in the following principal ways:

--The operation and maintenance recovery is reduced from 100% to 75%, and the new construction recovery is reduced from 100% to 50%. We cannot agree with these changes, and we urge they not be adopted.

--There is a longer phasing in period. We believe that the phasing in period for O & M charges is reasonable, but believe that the new construction charge should take effect immediately.

--The Domenici amendments appear to allow the Secretary of the Army complete discretion to construct new projects within the constraints of the Inland Waterway Trust Fund and other applicable statutes. While we agree that the mechanism of the Trust Fund is useful in safeguarding the concept that expenditures do not exceed receipts, we cannot agree with the apparent waiving of the requirement for Congressional authorization.

In conclusion, we would like to congratulate Senators Stafford, Abdnor and Domenici for their initiative in introducing waterway user charge legislation. The Sierra Club believes that the greatest advance the Congress can make this year and next year is in the area of cost recovery for many types of water resource projects. The "giveaway" aspect of the federal government's role in water resource management has probably been the most important single factor in distorting the rational use of our nation's waters.

The Sierra Club has not stood alone in its support of waterway user charges. Every U.S. President in the last forty years has advocated waterway user charges. Over this same period of time there have been at least ten major studies that have come to the same conclusion.

The Congress took the first tentative step in 1978 with the passage of Public Law 95-502. President Reagan has made it clear that tentative steps are no longer enough in addressing our federal spending policies. It is a pleasure to be able to support this President in advocating a measure that should have equally beneficial impacts on the economy, the environment, and our transportation system.

We urge this Committee to pass strong user charge legislation.

TESTIMONY OF ROSE MCCULLOUGH, SIERRA CLUB

before

The Water Resources Subcommitte
Senate Committee on Environment and Public Works

Regarding WATER POLICY

June 18, 1981

HEARINGS ON WATER POLICY, PORT DEVELOPMENT,
AND INLAND WATERWAY DEVELOPMENT

My name is Rose McCullough. I am the Northern Great Plains Assistant Regional Representative for the Sierra Club. I am honored today to represent our over 200,000 members to discuss water policy issues, especially in the semi-arid western region of our country.

There are several issues that I would like to discuss for your consideration as you make decisions about changes in our water policy that are in the national interest:

(1) The history of Reclamation and its accomplishments and its costs, including who has paid the costs of reclamation.

(2) A few examples of a bureaucracy out of control and its effect on the water policies and programs of our nation.

(3) A cost recovery and conservation program for reclamation projects that will benefit the economy of our nation and our environment.

Historian Walter Prescott Webb tells us, "If we do not understand the West it is because we perversely refuse to recognize this fact... when the desert pokes a hot finger into the border regions, the people speak of a drought; when it pulls the finger back, they say the country is getting more seasonable. At the heart of the desert there is no drought, there is only an occasional mitigation of dryness."

A century ago John Wesley Powell explored the southwest and wrote a Report on the Land of the Arid Region of the United States. He took on the Chamber of Commerce, railroads, and land speculators, who portrayed the West as a potential garden spot, by emphasizing the natural limits of the arid West's water resources and its land.

> "There remains vast areas of valuable pasturage land bearing nutritious, but scanty grass. Within the Arid Region, only a small portion of the country is irrigable. The irrigable tracts are lowlands lying along the streams.
>
> The limits of successful agriculture without irrigation has been set at 20 inches (annual rainfall)... Many droughts will occur, many seasons in a long series will be fruitless; and it may be doubted whether dryland agriculture will prove remunerative. These lands will maintain but a scanty population."

In 1893 Powell told the International Irrigation Congress "...you gentlemen are piling up a heritage of conflict and litigation over water rights, for there is not sufficient water to supply the land."

The Bureau of Reclamation has since 1902 constructed 325 reservoirs, 345 dams and nearly 15,000 miles of canals. More than 11 million acres are irrigated for 146,000 landowners and the reclaimed land produces about 5 million in crops annually, roughly 8% of the American harvest.

In 1977 the agricultural output of the Arid West, $16.6 billion, was 18% of the nation's total agricultural output, including 21% of our wheat, 39% of our barley, and 66% of our cotton. The population of the West has grown faster than than of the nation as a whole. Was Powell wrong? Clearly the West has more population and produces more crops than he envisioned a hundred years ago. Has the West found some magic solution to its fundamental deficiency--water?

Unfortunately not -- the price of a large and rapidly expanding population and vast agriculture production in the West includes:

The depletion of groundwater -- pumping more water than in put back on the average.

Damming the region's rivers and streams to make water available on demand.

Transporting water long distances from where it is abundant to where it is scarce.

Salinization of once fertile land by irrigation waters.

Billions of dollars have been spent on programs with contradictory goals, and problems without economic solutions such as salinization have been created. These programs, impressive as they are, have not solved the West's essential deficiency -- it's scanty supply of water. In some ways they have exacerbated the situation; the West has developed beyond its capacity to sustain the developments that have occurred. The increasing population and the irrigated agriculture that are the pride of those who promote more development in the West may not be sustainable at a price we can afford. The boom and bust economy that will be the result of overdevelopment will be devastating.

It is a cost of the water development -- the dams, the canals, the reservoirs that have been built over the years -- beyond the amount of money already spent by taxpayers and the permanent damage to the land and water -- it is a cost we cannot afford. Under President Reagan's leadership, the Congress has begun a painful budget cutting process -- one in which favorite programs of each and every interest have been cut deeply. The Sierra Club would have cut different programs and shaped a different budget had the choice been ours. Conservationists are not completely happy with the cuts being made; many programs we have worked to create are being eliminated or reduced. But if these drastic reductions are indeed necessary, we suggest that the water development programs in the West must come under the closest of economic scrutiny and must finally be required to repay to the Treasury their real cost.

Under the present western water development system, a few select individuals have profited immensely, while the public till has bankrolled water development without it serving a clear public purpose or providing a public benefit.

The price that we pay for unsound water development -- salinization of much fertile land, destruction of riparian ecosystems, subsidence of land where acquifers have been overdrafted -- is at least partly due to the benefits of that development being given free or well below market value to a chosen few. If the beneficiaries of the various water development projects had been required over the years to pay for those projects, the choices about which projects to build and which to forgot would have been more careful and perhaps many of the adverse effects could have been avoided. When we provide water for irrigation at a highly subsidized price we create a powerful disincentive to use the water as conservatively as possible, and we create an inflated demand for more cheap water.

Certainly the history of water development in the West have provided ample lesson that the system of providing cheap water on demand is too costly -- in economic terms and to the fragile enviornment of the semi-arid West. The time is here to change the system -- both to benefit taxpayers and to protect the West from the adverse effects of development beyond its capacity to sustain that development.

The changes we propose are simple and equitable:

o recovery of the full cost of any water development project including interest at the prevailing market level from those benefited by the project;

o active water conservation programs by all users of federally financed or assisted projects and the consideration of a water conservation program as an alternative to any proposed construction project.

Demands for water can be satisfied in a variety of ways including more efficient use of existing supplies and reduction of the demand, as well as the traditional solution to increase available supplies with impoundments or transfers. The more efficient use of water and reduction in demand are the most cost effective solutions in the semi-arid West.

Private interests, whether they deal in cattle, oil, minerals, coal timber, land or water cannot be trusted or expected to care for and conserve our resources for the use of future generations. They alone cannot protect either the monetary or the non-monetary values of the land. There are values too critical and resources too perishable to be entrusted entirely to private exploration. There is a difference between using a resource and mining it, and the future's legitimate claim on us requires that we make our choices based on that difference. Based on experience, it is clear that a partnership between private enterprise and government is necessary to best use our water resources in the West. Federal agencies have made some unwise choices -- they have become promoters of large water development projects and promoters of projects to mitigate the damage done by past projects. Private enterprise has stood in line to receive the handouts of cheap water but has been unwilling to pay the real costs of water development.

When taxpayers express frustration with the present system, one reason is because the Bureau of Reclamation has become a bureaucracy out of control.

In 1977 Congress (without dissent) ordered an investigation of the San Luis Unit, Central Valley Project. The San Luis Task Force report documented economic manipulation and expenditure of funds by the Bureau of Reclamation beyond their authority to commit funds.

The contract renegotiation continues today with the Westland district. This spring (May 26th) the Reagan Administration took the commendable position that the contract include the full cost of service for water and contract adjustment every five years.

Mr. Chairman, it is interesting that California alone -- of the 17 reclamation states -- is allowed to include operation and maintenance costs as part of the cost of service in water contracts. These contracts will run for 40 years and it is possible, even likely, that the O&M costs will exceed the contracted price of water during the life of a contract. In every state from Texas to the Dakotas and west, except California, irrigators must pay the full cost of O&M, whatever it may be. While we believe that water users should pay the full O&M amount plus repay construction costs with interest, the inequity between California and the other 16 reclamation states is a good example of the bureaucracy out of control -- specific privileges are given to a few without regard to whom the costs accrue. In some cases in California, there are contracts that will be in effect for several years with the cost of water at only a few dollars per acre. With soaring energy costs, it is reasonable to assume that these reclamation beneficiaries are not beginning to pay their actual operation and maintenace costs.

A recent Government Accounting Office report on six proposed federal irrigation projects found that the cost to the government of delivering water is between $54 and $130 an acre-foot each year but crops grown by the irrigators do not yield enough revenues to cover the cost. Of course, farmers are happy to buy the federal water because they get it below its actual cost and someone else -- usually the taxpayer and sometimes electric ratepayers using power produced by federal hydroelectric projects -- pays the difference.

The same GAO report concluded that repayment by irrigators is less than 10% of the federal government's actual cost. These partial repayments are, however, represented to theCongress as full repayment; but because the irrigators do not pay interest the actual amount recovered by the federal treasury is small -- sometimes only 3 cents for each dollar spent.

Congressman Doug Bereuter recently released a report on a Bureau of Reclamation project in Nebraska. His investigation showed that the Bureau had withheld information on the O'Neill Unit from Cngress and from the public in several areas including the need for reauthorization of the project by Congress because it had exceeded the cost ceiling authorized by Congress. Congresswoman Virginia Smith, a strong supporter of the Bureau of Reclamation and the O'Neill Unit in her district in Nebraska joined Congressman Bereuter in requesting an investigation of the Bureau's practices on this project in my home state.

If water development is going to proceed, the Congress -- indeed this subcommittee -- will need to bring the bureaucracy back into control. We recommend that oversight by Congress along with the immediate adoption of 100% cost recovery including a reasonable interest rate from all water users including irrigators and an effective water conservation program as a prerequisite for all federally assisted water development.

STATEMENT BEFORE THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
SUBCOMMITTEE ON WATER RESOURCES

JUNE 18, 1981

BY CLIFF ATKINSON, JR., DEPUTY EXECUTIVE DIRECTOR
AMERICAN WATER WORKS ASSOCIATION

MR. CHAIRMAN, THE AMERICAN WATER WORKS ASSOCIATION WELCOMES THE OPPORTUNITY TO COMMENT ON NATIONAL WATER POLICY AND S. 621. I AM CLIFF ATKINSON, JR. AWWA'S DEPUTY EXECUTIVE DIRECTOR FOR GOVERNMENT AFFAIRS.

THE COMMUNITY WATER SUPPLY INDUSTRY IN THE UNITED STATES PROVIDES OVER 30 BILLION GALLONS OF WATER PER DAY TO 200 MILLION PEOPLE. THIS SERVICE IS LARGELY PAID FOR BY THE USERS OF THE SERVICE. THE INDUSTRY HAS DEALT WITH GROWTH IN BOTH POPULATION AND PER CAPITA WATER USE, URBANIZATION, POLLUTION, HIGH INTEREST RATES, AND COMPETITION FOR AVAILABLE WATER IN ITS QUEST TO PROVIDE THE BEST POSSIBLE WATER SERVICE AT A REASONABLE COST.

THE ASSOCIATION IS A NON-PROFIT, SCIENTIFIC AND EDUCATIONAL ORGANIZATION, WITH 34,000 MEMBERS REPRESENTING ALL INTERESTS IN COMMUNITY WATER SUPPLY, INCLUDING MANAGERS, ENGINEERS AND OPERATORS OF WATER SYSTEMS, CONSULTING ENGINEERS, EDUCATORS, MANUFACTURER AND GOVERNMENT OFFICIALS. AMONG OUR MEMBERS ARE 3,500 WATER SYSTEMS WHICH PROVIDE 70% OF THE POTABLE WATER USED BY THIS NATION.

AWWA BELIEVES A SOUND WATER RESOURCES POLICY SHOULD HAVE, AS ITS PRIMARY OBJECTIVE, THE PROVISION OF AN ADEQUATE SUPPLY OF HIGH QUALITY WATER FOR PEOPLE, PLANNED AND MANAGED FOR THE ENVIRONMENT. AMONG MANY RELATED

CONSIDERATIONS, ARE CONSERVATION OF WATER, CONTROL OF POLLUTION, EFFICIENT TREATMENT AND DISTRIBUTION OF WATER, AND EFFECTIVE WATER RECLAMATION AND REUSE. A SOUND WATER RESOURCES POLICY ALSO MUST PROVIDE BASIC GUIDELINES THAT CLEARLY DEFINE AREAS OF RESPONSIBILITY WITH RESPECT TO THE SUPPLIER, THE USER, AND THE VARIOUS LEVELS OF GOVERNMENT. AWWA BELIEVES THAT S. 621 DOES THIS BETTER THAN PRESENT METHODS.

IT SHOULD BE NOTED THAT AWWA REPRESENTS COMMUNITY WATER SUPPLIERS OF ALL SIZES AND FROM ALL SECTIONS OF THIS NATION. DURING THE ASSOCIATION'S RECENT ANNUAL CONFERENCE, EXTENSIVE DISCUSSIONS WERE HELD CONCERNING THE ROLE OF THE FEDERAL GOVERNMENT, AND PARTICULARLY THE PROPRIETY OF FEDERAL FINANCIAL ASSISTANCE, TO WATER SUPPLIERS. FRANKLY, THERE IS SIGNIFICANT DISAGREEMENT AMONG OUR MEMBERS ON THIS ISSUE. MANY FEEL THAT WATER SUPPLY SYSTEMS SHOULD BE SELF-SUSTAINING. OTHERS, RECOGNIZING THE SIGNIFICANT COSTS OF REHABILITATION AND IMPROVEMENT OF OLDER SYSTEMS IN MANY EAST COASTCITIES, FEEL THAT FEDERAL FINANCIAL ASSISTANCE IS APPROPRIATE AND IN FACT, NECESSARY.

AWWA BELIEVES THAT THE RESPONSIBILITY FOR WATER RESOURCES PROJECTS, PARTICULARLY THOSE THAT HAVE, AS A PRIMARY PURPOSE, PROVISION OF WATER TO COMMUNITIES AND INDUSTRY, SHOULD REST WITH THE ECHELON OF GOVERNMENT OR PRIVATE INTEREST, CLOSEST TO THE PEOPLE THAT ARE BENEFITED. THIS RESPONSIBILITY IS ONE OF BROAD MANAGEMENT AND INCLUDES SPONSORSHIP, PLANNING, DESIGN, DEVELOPMENT, FINANCING, OWNERSHIP, AND OPERATION AND MAINTENANCE OF WATER SYSTEMS.

AWWA AGREES WITH THE PHILOSOPHY EXPRESSED IN S. 621 THAT THE STATES SHOULD HAVE GREATER RESPONSIBILITY FOR PROJECT SELECTION, BUT INSOFAR AS COMMUNITY WATER SUPPLY IS CONCERNED, LOCAL GOVERNMENT AND COMMUNITY SYSTEMS SHOULD HAVE MAJOR PARTICIPATION AS NOTED ABOVE.

THE ASSOCIATION BELIEVES THAT THE MAJORITY OF WATER CRISES MAY BE TRACED TO POOR PLANNING AND DELAYED CONSTRUCTION RATHER THAN SHORTAGES OF WATER. TO AVOID THESE SITUATIONS, COMPREHENSIVE STUDIES SHOULD BE ACCELERATED AND PLANS IMPLEMENTED TO INSURE THAT WATER IS AVAILABLE FOR DOMESTIC, INDUSTRIAL, AND OTHER USE PURPOSES.

THE ROLE OF FEDERAL GOVERNMENT

AWWA RECOMMENDS THAT THE ROLE OF FEDERAL GOVERNMENT IN WATER RESOURCES PROGRAMS AND PROJECTS BE SUPPORTIVE AND COOPERATIVE. IN THIS REGARD, AWWA BELIEVES THE FEDERAL GOVERNMENT SHOULD PROVIDE:

1. CONTINUING COOPERATION WITH THE STATES AND LOCAL PUBLIC AND PRIVATE AGENCIES DURING PREPARATION OF GENERAL PLANS FOR WATER RESOURCES. S. 621 PROVIDES FOR THIS.
2. COORDINATION AMONG FEDERAL AGENCIES ENGAGED IN WATER RESOURCES TO ELIMINATE COMPETITION AND DUPLICATION. AWWA SUPPORTS THE APPROACH TAKEN BY THE ADMINISTRATION, TO ESTABLISH A CABINET COUNCIL ON NATURAL RESOURCES AND ENVIRONMENT, AND A WATER POLICY OFFICE IN THE DEPARTMENT OF INTERIOR.
3. FINANCING FOR LARGE REGIONAL AND MULTI-PURPOSE WATER RESOURCE DEVELOPMENT PROJECTS WITH PROVISIONS FOR LOCAL BENEFITS. AWWA AGREES WITH THE PROVISIONS IN S. 621 FOR

THIS CATEGORY OF PROJECTS, AND SUGGESTS THAT THERE ARE MANY PROJECTS, PARTICULARLY IN DROUGHT AREAS, THAT NEED ATTENTION. IT IS DIFFICULT HOWEVER, TO OFFER COMMENTS ON THE PROPOSED 50-50 LAND AREA-POPULATION SPLIT WITHOUT RESEARCH ON HOW THIS MIGHT AFFECT DIFFERENT PARTS OF THE COUNTRY. AWWA THEREFORE URGES THAT SUCH RESEARCH BE UNDERTAKEN.

4. RESEARCH IN THOSE ASPECTS OF NATIONAL WATER PROBLEMS THAT ARE BEYOND THE CAPABILITIES OF STATE AND LOCAL GROUPS.
5. TRAINING OPPORTUNITIES AND ADVANCED TECHNOLOGY THAT ARE BEYOND THE CAPABILITY OF STATE AND LOCAL GROUPS.
6. ENCOURAGEMENT TO STATE AND LOCAL AGENCIES TO ASSUME GREATER RESPONSIBILITY IN PLANNING, CONSTRUCTING, OPERATING, FINANCING AND MANAGING WATER RESOURCES PROJECTS. AWWA BELIEVES S. 621 WOULD ACCOMPLISH THIS.
7. RECOGNITION OF, AND RESPECT FOR, THE RIGHT OF EACH STATE TO CONTROL THE USE OF ITS WATER AND ASSOCIATED LAND AND RESOURCES.
8. REGULATIONS ONLY WHEN NECESSARY AND WHEN TAILORED TO REGIONAL CIRCUMSTANCES AND REQUIREMENTS.
9. INITIATIVE IN DEVELOPMENT ONLY (A) WHEN THE PROJECT IS BEYOND THE CAPABILITY OF LOCAL OR STATE GROUPS; (B) THE PROJECT IS SO COMPLEX THAT NO CLEARLY DEFINED

LOCAL OR STATE GROUP, OR GROUPS, CAN BE IDENTIFIED AS THE PRINCIPLE BENEFICIARIES; (C) FEDERAL PARTICIPATION IS NECESSARY TO ASSURE MAXIMUM FEASIBLE DEVELOPMENT IN KEEPING WITH THE REGIONAL PLAN, AND (D) WHEN SUCH PROGRAMS DO NOT COMPETE WITH STATE, LOCAL OR PRIVATE INITIATIVES.

ROLE OF THE STATES

THE ASSOCIATION RECOMMENDS THAT EACH STATE FULLY EXERCISE ITS CONSTITUTIONAL RIGHT AND RESPONSIBILITY IN THE MANAGEMENT OF WATER RESOURCES. IT URGES THAT STATES TAKE THE INITIATIVE IN CARRYING FORWARD WATER RESOURCE AND RELATED DEVELOPMENTS ON A COOPERATIVE BASIS WITH LOCAL AGENCIES AND THE FEDERAL GOVERNMENT. IT RECOMMENDS THAT A SINGLE AGENCY BE ESTABLISHED IN EACH STATE TO PROVIDE UNIFIED POLICY AND COORDINATE ALL WATER RESOURCES ACTIVITIES. THE ASSOCIATION IS PLEASED THAT STATES ARE GIVEN A MAJOR ROLE UNDER S. 621.

ROLE OF LOCAL AGENCIES

LOCAL ENTITIES HISTORICALLY HAVE SERVED THE POPULATION WITH COMMUNITY WATER SUPPLIES, EFFICIENTLY AND ECONOMICALLY. PUBLIC OR PRIVATE AGENCIES SUCH AS WATER DISTRICTS, CITIES, TOWNS, VILLAGES, INVESTOR-OWNED WATER COMPANIES, COMMISSIONS, AND AUTHORITIES HAVE BEEN HELD RESPONSIBLE, UNDER STATE LAW, FOR ALL ASPECTS OF COMMUNITY WATER SUPPLY. THESE AGENCIES SHOULD CONTINUE TO BE RESPONSIBLE FOR MANAGING SYSTEMS AS SELF-SUSTAINED, UTILITY TYPE ENTERPRISES.

AWWA BELIEVES THAT THE ABOVE ARE VITAL ELEMENTS OF A SOUND NATIONAL WATER RESOURCES POLICY, AND RECOMMENDS THAT LEGISLATION PROPOSED BY THIS SUBCOMMITTEE, INCLUDE THESE PRINCIPLES.

COMMUNITY WATER SUPPLY IS QUANTITIVELY, ONLY A SMALL PART OF OVERALL WATER RESOURCES. BECAUSE OF ITS IMPACT UPON THE HEALTH AND WELL BEING OF THE PEOPLE OF THE NATION, HOWEVER, IT IS A MOST VITAL ELEMENT IN TERMS OF QUALITY. THE AMERICAN WATER WORKS ASSOCIATION STRONGLY RECOMMENDS THAT ANY LEGISLATION THAT MAY IMPACT ON THE REGULATION OF DRINKING WATER QUALITY, INCLUDE REQUIREMENTS FOR COST BENEFIT ANALYSIS AND SOUND SCIENTIFIC BASIS, AND THAT CONTAMINANTS BE SHOWN TO POSE AN UNREASONABLE RISK TO HEALTH BEFORE REGULATION. AWWA BELIEVES THAT S. 621 MAY BE ORIENTED TOO MUCH TOWARD WATER RESOURCES DEVELOPMENT TO THE NEGLECT OF WATER SUPPLY QUALITY.

THE AMERICAN WATER WORKS ASSOCIATION BELIEVES THAT THE WATER CONSUMING PUBLIC CAN BE SERVED BEST BY SELF-SUSTAINED WATER UTILITIES, FINANCED WITH RATES BASED UPON SOUND ENGINEERING AND ECONOMIC PRINCIPLES. WATER RATES ARE GENERALLY LOW RELATIVE TO OTHER UTILITIES, AND THEY USUALLY PROVIDE A POSITIVE CASH FLOW. UNFORTUNATELY, REVENUES ARE FREQUENTLY DEPOSITED IN GENERAL FUNDS WITH A PORTION LOST TO OTHER PURPOSES SUCH AS TRASH COLLECTION, STREET REPAIR, ETC. LOST FUNDS ARE VITALLY NEEDED FOR REPAIR, MAINTENANCE, EXPANSION, REHABILITATION AND MODERNIZATION OF THE UTILITIES SYSTEM ITSELF. THERE ARE SIGNIFICANT PROBLEMS IN MANY SECTIONS OF THE COUNTRY WITH " UNACCOUNTED FOR" WATER. MUCH OF THIS IS DUE TO AGED DISTRIBUTION SYSTEMS.

THE AMERICAN WATER WORKS ASSOCIATION BELIEVES THAT GOVERNMENTAL GRANTS TO AID WATER UTILITIES IN THE CONSTRUCTION OF FACILITIES ARE UNDESIRABLE BECAUSE THEY INFRINGE ON THE FINANCIAL AND MANAGERIAL INDEPENDENCE NECESSARY TO SELF-SUSTAINED BUSINESSLIKE OPERATIONS. IT, NEVERTHELESS, RECOGNIZES THAT THERE ARE SYSTEMS THAT HAVE SPECIAL PROBLEMS, WHERE FINANCIAL ASSISTANCE MAY BE REQUIRED, AND AGREES THAT FINANCIAL ASSISTANCE MAY, IN SOME INSTANCES, BE NECESSARY TO PERMIT TIMELY COMPLIANCE WITH THE LAW. WE DO NOT ADVOCATE A PROGRAM SIMILAR TO THE SEWER CONSTRUCTION GRANT PROGRAM. IN SUCH CASES, WHERE UTILITIES FIND IT IMPOSSIBLE TO ATTRACT PRIVATE CAPITAL, WITHOUT INCURRING BURDENSOME AND UNREASONABLE RATES, THE ASSOCIATION BELIEVES THAT GOVERNMENT ASSISTANCE FURNISHED IN THE FORM OF LOANS, WITH DEFERRED PRINCIPLE PAYMENTS AND MINIMAL INTEREST RATES, THAT WILL PERMIT UTILITIES TO PHASE INTO RATES, THE INCREASES REQUIRED TO PAY BACK THE LOANS ON A REASONABLE SCHEDULE, OR GUARANTEE LOANS BY PRIVATE LENDERS, IS THE BEST MEANS OF PROVIDING THIS ASSISTANCE. THE ASSOCIATION ALSO SUPPORTS THE IDEA OF A WATER BANK FOR FUNDING WHERE NEEDED. INVESTOR-OWNED UTILITIES SHOULD RECEIVE EQUAL TREATMENT UNDER THESE CIRCUMSTANCES.

THE AMERICAN WATER WORKS ASSOCIATION ALSO BELIEVES THAT FEDERAL "IN-HOUSE" PLANNING AND DESIGN, ASSOCIATED WITH SINGLE PURPOSE WATER SUPPLY PROJECTS, SHOULD NOT EXCEED 25% OF THE TOTAL MANHOURS ESTIMATED FOR PLANNING AND DESIGN OF ALL PROJECTS OF THIS NATURE, AUTHORIZED UNDER ANY WATER RESOURCES DEVELOPMENT ACT. FURTHER, THE ASSOCIATION BELIEVES THAT THE REMAINING 75% OF SUCH EFFORTS SHOULD BE ACCOMPLISHED BY EITHER PRIVATE SECTOR CONSULTANTS OR THROUGH THE USE OF RESOURCES AVAILABLE TO THE UTILITY WHICH SUCH PROJECTS WILL ULTIMATELY SERVE. AWWA URGES

THAT THE SUBCOMMITTEE RECOGNIZE THE WEALTH OF TECHNICAL RESOURCES FOR DESIGN AND OTHER SERVICES THAT ARE AVAILABLE THROUGH CONSULTANTS IN THE UNITED STATES.

IN SUMMARY, THE AMERICAN WATER WORKS ASSOCIATION BELIEVES THAT THE PRINCIPLES PRESENTED HERE TODAY ARE KEY TO A SOUND NATIONAL WATER POLICY INVOLVING COMMUNITY WATER SUPPLY. THE ASSOCIATION IS PLEASED TO HAVE HAD THE OPPORTUNITY TO APPEAR HERE TODAY BEFORE YOUR SUBCOMMITTEE. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

Testimony of Dr. Frank Kudrna, P.E.
before the
Senate Committee on Environment and Public Works
Subcommittee on Water Resources

Mr. Chairman, I am pleased to appear today before the subcommittee as President of the National Association of Urban Flood Management Agencies. Our members are state and local agencies responsible for design, construction, and operation of urban flood protection projects; administration of floodplain regulations; storm drainage; water pollution control; and other water management duties.

The subcommittee is seeking an overview of existing water resources policies and programs and the ability of existing programs to meet future water needs. The National Association of Urban Flood Management Agencies supports this review and urges particular examination of Federal policies and programs which should be addressing the nation's urban flood problems but are not.

The Association seeks a cooperative Federal-state-local partnership in planning and implementing floodplain management and flood damage reduction as a component of comprehensive urban water management programs. Our experience shows that flood damage solutions often can be achieved in conjunction with plans for storm drainage and water quality, which, in turn, are intimately related to land use planning and development.

The job is challenging. It requires a willingness to work with many agencies and programs at all levels of government as well as the affected people and their elected representatives. It requires patience to develop complicated implementation agreements allocating duties and costs among participants. It requires resolve for each participant to fund and accomplish its responsibility in a timely manner.

State and local urban flood management agencies have improved their capabilities to get the job done. On the other hand, Federal participation has declined rapidly. The decline is only partly attributable to budget constraints, which cannot be faulted in these times. Much more is due to cumbersome processes and procedures for authorizing and funding Federal participation. And, shifting budgetary priorities among agencies and programs. And, self-imposed policies which impede cooperative efforts with other agencies.

Let me illustrate with the collapse of highly effective, technical assistance programs for floodplain management. The Corps of Engineers had hardly terminated its floodplain information studies program to concentrate on flood insurance studies, when the Federal Emergency Management Agency decided to terminate that program. These studies are not only the technical basis for floodplain regulations but are important to disaster preparedness planning, flood damage assessments, and flood protection planning. Now, only token assistance is available.

What happened to the Corps of Engineers' urban flood control program? They adopted policies (33 CFR 238.7) that they will no longer participate:

- In flood damage reduction planning or projectsupstream of an arbitrary (800 cfs) cut-off point.
- Or, in the flood damage reduction component of a project which also involves water pollution control.

They immediately abandoned or curtailed studies and projects authorized by Congress. The result is their program will practically dry up in the smaller urban watersheds.

Soil Conservation Service participation also has been curtailed. The causes are budgetary constraints on planning assistance (mainly internal) and inability to get watershed projects authorized.

Meanwhile, flood disasters continue to occur and Federal flood insurance claims continue to be paid. The Federal government has huge financial obligations in unsolved, urban flood problems.

- Flood damages for over 1,790,000 homes and businesses are insured for over $100 billion.
- Flood insurance claims payments are averaging $340 million per year.

Clearly there is a Federal interest in participating with urban flood management agencies in the reduction of urban flood damages.

Federal agencies should have standing authority and budgeted funds so there can be timely technical assistance to floodprone communities and participation in urban water management planning.

Agency participation in multiple purpose and multiple jurisdiction plans should not be precluded.

Federal authorization and appropriation processes should be streamlined so that project participation can be initiated in a timely fashion with cooperating agencies. And, once begun, work should be completed promptly.

Where non-Federal financing is available to initiate construction, there should be provisions, under appropriate guidelines, for reimbursement of the Federal share.

State and local agencies should not be penalized for project implementation before Federal participation is fully authorized. A procedure provided by Section 134a of PL 94-581 has expired and should be revived.

Federal cost sharing should be consistent among agencies and programs addressing the same purpose. For example, set the cost sharing for allocated urban flood protection costs at 80% Federal and 20% non-Federal taking into account non-Federal obligations for lands, rights-of-way, relocations, and project operation and maintenance.

The National Water Resources Policy and Development Act of 1981 (S.621) proposed by Senators Domenici and Moynihan addresses some of these needs and should be explored in greater depth. Particularly, there is need for the cities to have a greater role in the decisionmaking process.

I suggest the subcommittee consider greater reliance on the expertise of state and local urban flood management agencies. Many have long experience in planning and implementing flood protection projects and urban water management plans which are timely, economical, and strongly supported by the public and elected officials.

On behalf of the Association, I thank you for this opportunity to appear. I would be pleased to answer questions or submit additional information for the record.

STATEMENT

of

Neil Sampson, Executive Vice President, NACD

to

The Subcommittee on Water Resources
Senate Committee on Environment and Public Works.

on

The National Water Resources Policy and Development Act of 1981

June 18, 1981

Mr. Chairman. Members of the Subcommittee:

It is indeed a pleasure to come here today and give you the views of the National Association of Conservation Districts on this important legislation. Conservation districts and irrigation districts have been very much involved in the development of projects designed and built by the Bureau of Reclamation and the Soil Conservation Service. Virtually all P.L. 566 projects are sponsored by at least one conservation district. Our association was instrumental in the initial passage of P.L. 83-566 and its amendments throughout the years.

Our testimony will attempt to address basic water resource policy issues facing the federal government rather than responding to any of the particular bills before the Committee. We also hope to be responsive to many of the questions raised in the press release announcing these hearings.

Water is becoming one of the most pressing natural resource management issues facing this country. Some of the issues involved are:

salinity
dropping water tables
increasing climatic instability
periodic drought

We wish to make the point at the outset that we believe that federally-assisted water resource development projects are different from federal water projects. The major vehicle for federally-assisted projects is the Watershed Protection and Flood Prevention Program, P.L. 566. In these projects, the local and state interests and objectives are foremost in the design of the projects. On the average, non-federal sources are picking up well over 25% of the cost of construction, most of the land rights costs, and virtually all of the costs of operation and maintenance (O&M). S. 621 proposes a 50% non-federal match on O&M.

We recommend that the Small Watershed Program be exempted from the Principles and Standards of the Water Resources Council, especially for those projects which are administratively approved. We have attached language which would accomplish this. We recommend that this language be included in your bill.

Over the past several years, the time involved in planning a water resource development project has been greatly increased. This is partially due to the complicated procedures required by the Water Resources Council's Principles and Standards, the requirements of the National Environmental Policy Act, the requirements of the National Historic Preservation Act, and the requirements of the Fish and Wildlife Coordination Act. Although P.L. 566 projects are specifically exempted from the Fish and Wildlife Coordination Act, the interdepartmental agreements and the eventual need in most cases for a section 404 permit essentially negates the exemption. The procedures to implement these statutes must be streamlined in such a way that the intent of the statute is not violated. Time limits for federal agency review must be shortened and the necessary funds must be appropriated to facilitate this review. Additionally, the volume of paper prepared for review must be reduced.

The states should be given more responsibility in establishing priorities among the water resource development projects within their state. This should be accomplished within programs, since there is little evidence that it can be done among programs.

Our association has a long-standing concern about the present Water Resources Council and its apparent lack of independence. We applaud the proposals for re-structuring the Council or replacing it with a Board whose chairman is not the Secretary of a federal department.

S. 621 proposes that funds appropriated for planning and construction of water resource projects be appropriated to the Water Resources Council, which would then farm them out to the various water agencies. We fail to see how this extra step would be helpful. Further, this additional step would create additional administrative costs. The Council or its successor should involve itself with policy issues rather then becoming the bookkeeper for the water resource agencies.

Sec. 104 of S. 621 allocates funds to states for construction of water resource development projects. Funds are re-allocated if they have not been obligated within three years. We suggest that some relief should be granted here if the reason for non-obligation of funds is the failure to receive necessary federal permits.

PROPOSED AMENDMENT TO THE WATER RESOURCES PLANNING ACT

SEC. 3. Section 103 of the Water Resources Planning Act is amended by adding at the end thereof the following: "Such principles, standards, and procedures authorized by this section or any review and recommendations of the Council authorized or required pursuant to this Act shall not apply to any water or related land resources project authorized or carried out pursuant to the Watershed Protection and Flood Prevention Act (16 U.S.C. 1001 et seq.) which does not involve any single structure which provides more than four thousand acre-feet of total capacity, or to any such project authorized or carried out pursuant to sections 31 and 32 of the Bankhead-Jones Farm Tenant Act (7 U.S.C. 1010–1011) or sections 1 through 6 of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590a–590f).".

Statement of

Frederick J. Clarke
Chairman, National Water Policy Committee
American Society of Civil Engineers

before

Committee on Public Works, U.S. Senate
Subcommittee on Water Resources

Mr. Chairman, the American Society of Civil Engineers is pleased to testify before you. Members of our Society are continually engaged in water resources studies and engineering at all levels - as individuals, or members of consulting firms, or employees of public agencies. Our membership of 80,000 has both a professional and business interest in the water resource policies of the U.S. and other public groups at state and local levels.

I am Chairman of the National Water Policy Committee of ASCE, which position I have occupied for the past three years. You have posed very broad questions in the News Release which you issued announcing these hearings.

I shall respond to them based on discussions among members of our Committee, and my experiences over the past years as Chief of Engineers, Executive Director of the National Commission on Water Quality, and as a Consultant on Water Resources to an International Engineering Firm. My views may not be reflective of the views of all members of ASCE.

I would like to respond to each of your questions:

1. Why has spending, in uninflated dollars, on water projects declined sharply in recent years, and what can or should be done to reverse that decline:

Spending on water projects has not declined. Under the laws of Congress, the emphasis on spending switched from developmental projects to pollution abatement programs. The National Environmental Policy Act of 1969, and the Water Pollution Control Act of 1972, and other acts of Congress while not stating an objective stopping developmental projects, established so many requirements that one effect was to delay many projects which ultimately may prove to be desirable.

More federal funds have been spent on efforts to clean up our waters in the past two decades, than have been spent for development of water resource projects by Federal Agencies over the past 150 years. These funds have gone to the most populous states with some consideration of water quality problems. The pollution abatement program has provided funds in large amounts to regions of the U.S. that have generally not been the recipients of Federal Funds for water resource development projects. The traditional water resource development funds have gone to the south and west - while the more recent federal pollution abatement funds have gone to the eastern and midwestern regions of the country.

We have seen a change in emphasis - with heavy support by Congress for pollution abatement funds. There has always been a reluctance on the part of OMB (regardless of which party is in power) to fund the traditional water resource projects.

Other factors - rising interest rates, growing environmental concerns, requirements to meet social needs of the country have combined to reduce the emphasis on new water projects. The aversion of the Carter administration to new water projects is well known.

To reverse the trend is difficult. Obviously, the requirement is for additional funds - which might come from many sources - federal, state, local and private. Projects already authorized and funded are too far along in execution to permit modification of cost sharing to provide for additional non-federal funds.

Projects currently authorized but not funded might be modified in cost sharing - but this would required reanalysis and reauthorization - probably requiring three to five years before they could be reauthorized by Congress.

Projects in the system awaiting authorization also might be modified in cost sharing - but again would require several years before they would be available for authorization.

It has been suggested that a block grant approach to states based on population and area would expedite the process of authorizing projects. It could advance authorization for spending but, unless additional funds are provided from some source, it would not reverse the decline in spending.

2. Why does project development take so long, and what impediments to development can be removed?

Project development - from initial request to project completion is paced by the amount of funds provided annually to move the project along, and by the delay time awaiting approval by executive agencies and by the Congress. The productive periods are the periods for planning and feasibility analysis, design, and construction. Before and between the periods are times awaiting approval.

The study time, the engineering time and the construction time can be shortened by applying additional funds to specific projects. If the total funds remain constant we can advance specific projects only at the expense of others. Thus, if some projects are optimally funded, others must be delayed.

There appears to be no shortage of authorized projects. The problem of delay is basically one of priority of funding.

In the past, the administration and the Congress, for many reasons, applied available funds to many projects in limited amounts rather than funding fewer projects at an optimum rate. Ultimately, the same amount will be accomplished under either system.

If a State or any group wishes to advance a project, a simple way is to finance it without waiting for Federal funds - or to finance a larger portion through an increase in the State's share of costs. I feel certain that Congress and the Administration would look with favor on such solutions.

3. How can past commitments for water development be fulfilled in a fair and rapid manner?

By "past commitments" we understand the committee to mean authorized but unfunded projects. This backlog varies in age from five to more than thirty years. The reasoning which resulted in justification of many of the projects has been outdated by developments since authorization. The more recent projects are probably still valid with minor modifications.

The problem is so large that it can only be dealt with on the local, waterway or regional basis to evaluate "past commitments" along with current needs and commitments. Some form of river basin planning organization, with authority to establish needs and priorities, is required if a meaningful approach to the problem of "past commitments" is to be made.

This approach may not be rapid, but it will keep pace with any amount of Federal funding which can be foreseen.

4. Should the states be involved to a far greater degree in project consideration and development? If so, how?

The states should be involved to a great degree in project consideration and development. ASCE has advocated strengthened state water resource agencies, state participation in regional and basin planning organization, and an advisory role for states at the Federal level.

5. How should priorities be established among various types of water projects?

This question can probably be broadened to include priorities among regions of the country.

Priorities have been established by actions of basin commissions or comparable groups, by recommendations of Federal agencies, by OMB, and by the Appropriations Committees of the Congress - and finally by the Congress.

None of the groups trusted the Water Resource Council to establish priorities. There was no mechanism within the Water Resource Council to do so nor was the requirement ever placed on the Council.

In considering the Water Policy Initiatives proposed in 1978 by then President Carter, ASCE concluded that there is a need for establishment, at the Federal level, of an organizational structure with authority and status to formulate and recommend water resource policy, and to provide leadership. We recommended an independent agency with members appointed bv the president and confirmed by the Senate including representation from the public, States and local entities.

Such a group could establish priorities among types of water projects for consideration by the Administration and the Congress.

6. Should there be changes in cost-sharing requirements?

This is a political decision - not an engineering decision. ASCE has given some thought to the problem and concluded that we were in general agreement with concepts that call for States to increase their participation in financing water projects. However, we invite attention to the fact that most policies for cost-sharing were established for specific functions to achieve certain National goals or objectives. It follows, therefore, that changes in cost-sharing formulas should be made only after examination of the original goals and objectives for adoption of present cost-sharing formulas.

Thank you, Mr. Chairman for the opportunity to present some views to the Committee.

STATEMENT OF
DONALD G. WEINERT, P.E.
EXECUTIVE DIRECTOR
NATIONAL SOCIETY OF PROFESSIONAL ENGINEERS

Mr. Chairman, Members of the Committee, my name is Donald G. Weinert and I am the Executive Director of the National Society of Professional Engineers, an organization representing 80,000 registered professional engineers from every discipline of engineering. On behalf of NSPE, I appreciate this opportunity to appear before your Committee on what we consider to be one of the most pressing issues before the nation. Water is a critical national resource and can no longer be viewed in parochial terms.

In 1978 NSPE established a Water Policy Task Force to analyze the adequacy of existing national water policy and, based on recommendations from that analysis, to develop a strategy for achieving a comprehensive, long-range national water policy that encompasses local, state, and regional water needs. The Task Force membership included experts from every aspect of water resource management requiring a professional engineering capability.

Earlier this year, our Task Force issued a complete report, with specific recommendations for the Congress and the Executive Branch. The magnitude of the report and the constraints of these hearings will not allow a full summary, so I would request that it be entered into the record at this time.

I would like to commend this Committee and the full Committee for the work completed on S. 1095, which recognizes many of the nation's glaring water problems and sets a proper direction in seeking their solutions. Specifically, the Water Resources Council, which was given the responsibility but not the authority to achieve coordination among the varied and often competing interests of the water related agencies would, under your bill, be replaced by an enhanced organizational structure with an independent Chairman. However, we fear that the National Board of Water Policy may still face many of the same problems of the WRC by its inability to reconcile the several competing agencies and regulatory authorities that affect water resource development. We simply must insure that authority exists to permit responsible water resource development agencies to plan and execute projects without fear of veto at every step of the way by a host of special purpose agencies.

We recommend that single or special purpose agencies without responsibility for water resource development be required to consider other water resource goals as well as their own in their planning. A detailed analysis of all agencies whose regulations and policies affect water resource development is urgently needed, looking into their guiding regulations and statutory obligations, for the purpose of determining where regulatory or statutory reform is required. Unless this step is taken, the fate of the Board will, in all probability, be that of the WRC's. We are also concerned about the Board's apparent dependence on reimbursable staff support from the Department of Interior rather than having its own independent staff.

While we agree in principle with the philosophy and direction of S. 1095 we are deeply concerned by that of S. 621, the bill currently under consideration. We see three fundamental problems. First, the bill would shift significant responsibility for planning and execution of water resource development to the individual states which are not prepared to handle it because of the interstate character and impacts of most water resource projects. We believe strong regional organizations, based on riverbasins and involving the states and the federal government, are essential to coherently analyze the nation's water problems, plan solutions, and set reasonable priorities. We fully recognize the incapacitating problems encountered by the River Basin Commissions established under the 1965 Planning Act. Nevertheless, as detailed in our full report, we believe that Commissions operating with clear authority to make majority decisions rather than having to seek consensus will provide a better planning and implementing vehicle for national water policy.

Second, the formula in S. 621 for allocating monies to the states provides a convenient solution to the political problems faced by Congress in the authorization process for water projects, but, unfortunately, has no bearing on actual national needs and priorities. The money should go where the national needs and priorities exist as developed by regional basin groups and as finally integrated by a strong National Board of Water Policy and the Congress.

Our third observation is that the thrust of S. 621 will intensify the political nature of water decision making. Relegating the planning and priority setting process for intrastate projects to the states and giving each state veto authority over interstate projects in their affected watershed will pit the states against each other in chaos.

Mr. Chairman, we appreciate this opportunity to comment briefly and enter our more extensive report into the record. I would also like to offer the resources of the National Society of Professional Engineers to the Committee in this important work. I would be glad answer any questions you might have.

NSPE POSITION ON WATER POLICY

I. INTRODUCTION

The hallmark of a democratic nation is its ability to engage the voice of its people in a broad range of public decisions. If that voice is to counsel wisely, the full range of knowledge and experience must be mobilized and made available to the people. Recognizing that a growing population is putting increasing pressure on finite water resources, we believe that professional engineers should speak now to help guide the Nation toward a sound National Water Policy. We believe that a combination of increasing need and unwise use of existing water resources will result in water problems within the Nation so intense by the turn of the century that, left unattended, the result will be drastic economic, environmental, social, and political change. If the situation is addressed early by an informed citizenry, and wisely by selfless leaders, we believe that inevitable change can come with minimum disruption of our way of life.

We believe that policy must support the attainment of broadly agreed upon goals of enduring value. These goals together embrace the national interest. They encompass good and sufficient food for our health, enough energy to maintain our economy, the provision of a defense establishment adequate to safeguard our Nation, and a government that will insure social well-being. The principal challenge of resource management is to provide for a balanced allocation among competing demands in the public interest. To this end, we believe that our National Water Policy should be developed:

1. To provide adequate water of appropriate quality for municipal use.
2. To provide adequate water of appropriate quality for agriculture.
3. To provide adequate water of appropriate quality for industrial use, (to include consideration of the needs for energy self-sufficiency).
4. To provide adequate water for navigation.
5. To provide water of appropriate quality for aesthetic, fish and wildlife, and recreational use.
6. To insure a legacy of water for future generations, including the preservation of selected areas in their natural state.

In pursuit of these principles, this report:

1. Assesses the body of existing and proposed water policy for adequacy.
2. Assesses the organizational adequacy of executive agencies at all levels of government to implement the policy.
3. Recommends changes to the National Policy and to governmental organizations charged with its execution, as appropriate.

The method we have selected for our work relies heavily upon the professional experience and judgment of Task Force members. The conclusions are presented without prejudice or concern for regional or partisan impact. The hope and expectation are that analysis motivated exclusively by concern for our fellow citizens and for our Nation, as is required of us by the Engineers' Creed, will provide the basis for wise decisions of immense importance.

II. A PHILOSOPHICAL BASE FOR DECISION MAKING

A. Role of Government

1. Important roles played by government

    a. Providing for the people that which they cannot do individually.

    b. Providing stability in key areas not found in the marketplace and in sponsoring projects with principal purposes other than economic return on invested capital.

    c. Embracing the longer view and seeking equity among regions, states, and individuals.

    d. Acknowledging the pervasive nature of water, affecting as it does so many decisions of social, economic, environmental, and political consequence, and responding at all levels to insure stable policies, to promote equity, and to foster wise investment in long-term, capital-intensive resource development.

    e. Developing policies which control decisions of importance to citizens holding diverse views.

    f. Implementing regulatory policies which are necessary to insure proper management of resources.

    g. Collecting basic data.

2. Principles of intergovernmental cooperation

    a. Water management decisions should be made at the local or state levels whenever feasible.

    b. There should be a clear delineation of responsibility and authority between local, state, and federal governments which provides for review and preemption where superior state or federal interests are affected.

    c. Each echelon of government should accept responsibility for functions which it has the authority to perform, beginning at the local level and ceding power to the senior levels only where required by jurisdictional limits.

    d. The commonality of interests between two or more states in certain water resources systems requires reliance on interstate authorities for adequate management as a logical alternative to an unwise abrogation of responsibility to the federal level.

3. Proposed limitations on government activities

    a. Authority to develop policy, plan programs, and control projects should be balanced with responsibility for implementation.

    b. To protect the public interest, government must embrace a rational approach to solving the problems of resource management. It should sponsor research where human knowledge is inadequate.

    c. Government must assess carefully the accumulation of power inherent in the control of water.

    d. Government must adopt only those laws and regulations it has the resources and intent to enforce consistently and fully, thus promoting a respect for law among the people.

    e. Government must minimize the cost, complexity, and uncertainty of its statutory and regulatory controls.

    f. Laws and regulations should be promulgated and administered to provide incentives as well as penalties.

B. Benefit Diffusion and Cost Assessment

1. Equity demands that cost-sharing rules be standardized to the extent reasonably possible, and that politically bestowed exemptions and exceptions be subject to uniform application of nationwide policy.

2. Federal cost-sharing policies should, to the extent possible, have a neutral effect in the comparison of alternative water management solutions.

3. While some effort should be made to insure equality of treatment to the states and watershed basins, rigid formulae for distribution of funds could increase inequity, not diminish it. The Nation's problems are not distributed according to any rigid pattern or formula.

4. The likely extent of project benefit and cost diffusion should be displayed clearly.

5. Though imperfect, the discipline of investment analysis has helped to prevent wasteful public expenditures. It should be applied to future investment recommendations.

6. The role of government in water resource management requires more than can be undertaken if investment analysis is the sole criterion. While every project proposal should display

investment analysis results, a mechanism is needed to promote uniform decisions in the face of unattractive investment yield. It must be recognized that exclusive reliance on economic answers does not satisfy the full range of public interests.

C. Conservation

1. Programs for the conservation of water when established in response to clearly justified needs should enjoy strong support of government at every level. The unique nature of water dictates that conservation be defined as providing for reasonable beneficial use, not simply reduction of demand.

2. Conservation should be applied rationally to help solve problems in the most effective and socially responsible way, not as an end in itself.

D. Preservation Versus Development

1. A governmental decision to preserve or develop water resources must be a coordinated position, properly balanced against other management options to insure response to the totality of human needs.

2. A governmental decision to preserve or develop should be controlled by law and regulation designed to promote consistency.

3. If real estate is to be devoted to a public purpose, it should be owned by the public.

4. The assignment of responsibility to make preservation decisions in the public interest must be accompanied by assignment of equivalent authority.

E. Interface with Priority Actions

1. Priority of actions to manage water resources must recognize the interdependence of national goals and be compatible with the priority accorded these other goals.

2. National water policy must be adjusted periodically to assure conformance with changing technology, public needs, and priorities.

F. Water Quality Versus Quantity

1. Resource management decisions should reflect the interrelationship between water quantity and water quality.

2. Water quality improvement decisions should be evaluated rationally with the same thoroughness and against the same multiple objectives as are used for "development" decisions related to quantity.

3. Permits for discharge of pollutants should be compatible with permits for water rights, and vice versa.

4. Water quality management should minimize public costs through use of rational criteria, through utilization of the assimilative capacity of the receiving medium, and through consideration of the next use of the water.

G. General Observations

1. Planning should emphasize a coordinated, multipurpose approach to problem solving.

2. The objective of planning and engineering studies should be a rational analysis developed in the minimum time consistent with sound planning principles, leading to a prompt political decision.

3. Changes in water policy should normally be evolutionary rather than quick or dramatic. Policy change should be embraced with care, and then only when rational analysis predicts broad-based public advantage.

4. National policy should focus on goals and objectives while avoiding prescription of detailed methods favoring a given type of solution.

5. Changes in law and regulation should apply prospectively. The repeated revision of completed feasibility reports is expensive and undesirable.

III. AN ASSESSMENT OF NATIONAL WATER POLICY AND ORGANIZATIONS

A. Organizational Roles and Responsibilities

1. Problems and issues

   a. Water resource programs are becoming more comprehensive and complex as our society becomes more sophisticated, with each program reflecting multiple purposes and roles, while responsibility at the federal level is spread among an increasing number of agencies.

   b. Single-purpose regulatory agencies without responsibility for water resource development projects can nevertheless exercise veto authority over those projects. There is a need for balancing the authority of these agencies with their level of responsibility.

   c. The Water Resources Council (WRC) suffers from a lack of both objectivity and full-time management because of the assignment of an agency head as Chairman.

   d. There appears to be a growing struggle between the executive and legislative branches of government to control and direct water policies.

   e. Some type of regional organization is necessary to identify and coordinate state and federal interests in both intra- and interstate basins. River basin commissions set up by the Water Resources Planning Act of 1965 (WRPA), although fairly successful considering the rules under which they have had to operate, are not satisfactory for the future resolution of regional problems because:

      (1) States do not have enough voice in policy formulation.

      (2) The consensus requirement for decisions allows one state to block commission actions desired by a majority.

      (3) Commissions can only address water resource problems in their assigned area (hence no interbasin transfers).

      (4) No standardized machinery exists for establishing proposed project priorities by region.

   f. Water quality is only one aspect of the water resource management problem. Yet, water quality programs of the federal EPA are frequently conducted without full regard for other water resource considerations and are not subject to review by the WRC.

2. Conclusions

   a. Single-purpose agencies should be required to consider other water resource goals as well as their own in their planning. To insure this, a detailed analysis of these agencies is urgently needed, looking into their guiding regulations and statutory obligations, for the purpose of determining where regulatory or statutory reform is required. As a minimum, these agencies must be required to participate in the planning process so that their advice is available early.

   b. The proposed Water Resources Planning Act Amendments of 1980 represent an improvement, but they do not go far enough. They should be expanded to include these points:

      (1) The WRC Chairman should be appointed for a four-year term by the President with the advice and consent of the Senate.

      (2) Where agency regulations conflict, the WRC should be empowered exclusively to resolve the problem. Where statutes conflict, the Chairman should recommend necessary changes to Congress.

      (3) The WRC should consider all aspects of water resources development: navigation, flood control, water supply, hydropower generation, and water quality. Water-based recreation, as well as fish and wildlife enhancement, should be considered auxiliary purposes.

   c. Water resource development is too important to every region of the Nation to continue a policy of local choice regarding regional organization. Basin commissions should be reorganized. Appropriate regulatory agencies should be represented as members along with federal and state development agency representatives. States wishing to participate in federally sponsored or funded water resource development programs and projects should be required to participate in appropriate Basin Commissions. Commission decisions should be by simple majority. Commissions should be established to cover the entire Nation, chartered by Congress to:

      (1) Develop comprehensive basin plans for both surface and groundwaters.

      (2) Prioritize projects for national budget submissions.

      (3) Identify conflicts to the WRC.

   d. Where basin commissions now exist they should be recast to conform with the organizational model proposed herein.

   e. See Exhibit 1 for a proposed organization plan of the Water Resources Council.

B. Cost Sharing

1. Problems and issues

   a. Cost-sharing policies for water resource development currently range from total federal funding to total local funding, depending on the nature of the project, the distribution of its benefits, and, to some extent, the nonfederal sponsor's ability to pay. There have been many attempts to reduce cost-sharing policy to a simple set of formulae and to "make beneficiaries pay their share." These attempts have produced frequent changes in policies and have resulted in application of a single formula to projects of like purpose, even though varying local conditions--environmental, physical, social, political, and economic--often make such application less than equitable.

   b. Each federal agency with water resource management responsibility administers a set of unique cost-sharing policies, guided generally by the national principles and standards, but responsive to a great number of different authorizing laws.

   c. Identical projects in the same general locations are subject to the different cost-sharing policies promulgated by the particular federal agency or state responsible.

   d. On some projects, particularly local flood control, contributions are required of project beneficiaries, but for correction of water quality problems they come from those who caused or contributed to the problem.

   e. Legislative or regulatory actions at the state level often affect cost-sharing practices. Such actions add to the problem of inconsistency of federal cost-sharing requirements between like projects.

   f. Frequently, the costs of federally financed hydropower and municipal and industrial water supply projects are only partially recovered from nonfederal beneficiaries in spite of the stated policy to require full reimbursement.

2. Conclusions

National cost-sharing rules and policies should be developed by the WRC, proposed by the President, and acted upon by Congress. The following principles should be incorporated:

a. The primary purposes of federally financed water resource development are navigation, flood control, water supply, hydropower, and water quality; auxiliary purposes are water-based recreation and fish and wildlife enhancement.

b. Project beneficiaries and problem contributors (where identified) should pay a share of initial project costs to qualify the project for federal funding.

c. All federal agencies should adopt and enforce the same cost-sharing rules for like projects.

d. States desiring federal funding assistance should adopt cost-sharing policies that are compatible with federal policies and which are consistent when applied to similar projects.

e. Federal capital expenditures for hydropower and municipal and industrial water supply should be fully recovered. Repayment should begin as soon as the project is completed and water is available.

f. Cost-recovery policy for navigation and irrigation projects should recognize the historic public commitment to support of these activities through seeking phased reimbursement of operating and maintenance costs first, and then full cost reimbursement as a long-term objective.

C. Water Rights

1. Problems and issues

a. The right to use its own waters is a valuable asset to any region, but the necessity for interbasin transfers of water in the Western and Southwestern United States has been well established already. The long-term effects of interbasin transfers include: (1) Limiting the future development potential of a "supply" basin once the importing basin's dependency is established because the supply basin's need was not "first in time", and (2) Stimulating development distant from the water supply.

b. Water rights have been granted over a period of time, frequently assumed to be in perpetuity, and rarely reviewed in terms of actual need based on today's circumstances.

c. An unacceptable number of Indian water rights claims are unresolved at present.

d. There are approximately twenty existing interstate compacts covering water rights, and five more are under consideration. The purposes of these compacts are to settle disputes, to remove causes of future controversy, and to divide and apportion a major water resource equitably between two or more states. As water demand increases, the need for as well as the difficulty of establishing these compacts will increase.

2. Conclusions

a. Each proposed interbasin water transfer should consider the reasonable and predictable needs and expectations of both the supply and receiving basins, including the quality and quantity characteristics of the affected waters.

b. The right to use water carries with it the responsibility to use it wisely. Demand management of water in waterdeficient areas should be encouraged and promoted. Evidence of responsible demand management by the receiving basin should be provided as a prerequisite to consideration of an interbasin transfer.

c. States should require periodic review of all water right grants to rectify continuing need and reasonableness of use.

d. Indian water rights claims should be resolved based upon firm water use requirements, water availability, and proper recognition of the spirit of the original agreement to establish the reservation. The settlement should recognize that the reservation represents a permanent tribal homeland. In cases where water resource development is required, authorization of such projects should be an integral part of the resolution.

e. Prompt conclusion of interstate water compacts now under consideration should be accorded a high priority.

D. Program Planning

1. Problems and issues

a. The nature and diversity of water-related programs have developed over a century and a half, during which time major changes have taken place. The role of the federal government in these programs has increased as well as that of other agencies concerned with the growth and development of the country. As a result, water policy and resultant programs at the federal level originate in several agencies with differing responsibilities. There is no custodian of national water policy; i.e., no single office is responsible for overall review, coordination, or revision of that policy.

b. There is a perception of inequity in the distribution of federal water resource development funds. This appears to result more from failure to consider the total picture of federal assistance in water resource development than from real discrimination. Many are unaware of the magnitude of federal support to navigation, flood control, water supply, and particularly to water quality improvement in their area.

c. There is some sympathy for single-purpose studies of national scope. In many ways this seems to be a step backwards.

2. Conclusions

a. Water resource policies at the federal level should be consolidated. The reorganized WRC should be directed to codify policy and review elements for consistency. The WRC should act as the custodian for national water policy in the future.

b. The reorganized WRC should review proposed federal water resource programs, including regulatory programs, to insure consistency with national water policy, federal law, and national priorities.

c. The reorganized WRC should provide the President and Congress with an analysis of proposed federal budget support for water-related programs each year, by region, to include EPA water quality programs.

d. Federal water program funding should be based on regional and national priorities and needs, not on area or population of the states.

e. Program planning should be done on a multipurpose basis by region with full consideration of regional plans and recommendations. National single-purpose planning should be limited to a synthesis of regional plan parts, revised as necessary to reconcile major discontinuities between regional plans.

E. Project Planning

1. Problems and issues

a. Project planning at the federal level is accomplished by a number of agencies--Water and Power Resources Service, Corps of Engineers, and Soil Conservation Service, for example--in accordance with the program authorized and funded for each agency, and within the policy framework established by each agency. Agency efforts are not formally coordinated with others. These multiple and uncoordinated programs encourage project "shopping".

b. EPA water quality program management is almost completely divorced from water quantity program management at the federal level, in spite of the direct, natural interrelationship of quantity and quality.

c. Proposed Water Resource Planning Act Amendments would establish a federally funded grant program for project studies. This would appear to weaken the authority of river basin commissions and the control intended by adoption of national priorities and policies. It would further politicize the process.

d. There is no requirement that federally funded project planning by state and local agencies be consistent with federal policy and priorities.

e. When water resource development projects affect wildlife habitat adversely, costly mitigation measures often must be taken. Environmental agencies sometimes fail to participate fully in early project planning, only to reveal, after the project is in an advanced planning phase, mitigation and enhancement requirements which could have been specified earlier. Sometimes the mitigation requirement takes large amounts of land from local tax rolls. Often, the full cost of mitigation and enhancement is never made clear to the public.

2. Conclusions

a. The reorganized and independent WRC should be given the authority to review, evaluate, and approve proposed federal water resource management projects after assuring:

(1) Compliance with law and approved policy.

(2) Timely coordination with federal agencies and basin commissions.

(3) Conformance with overall planning criteria.

(4) Consistency of entitlement, cost sharing, and agency recommended procedures.

b. Federally financed water quality management projects should be coordinated closely with all other federal water resource management projects. EPA project planning should also be controlled by the WRC's Principles and Standards.

c. Project funding should be based upon the following principles:

(1) Allocation priority will consider WRC-formulated national, basin-commission-proposed regional, and unilateral state-proposed priorities in that order.

(2) Routine studies consistent with the WRC priority allocation process should be funded without specific authorization action by Congress, subject, of course, to an annual review of progress by Congress during appropriation hearings.

(3) In keeping with the principle of balancing authority and responsibility, states must expect and accept reasonable federal control of federally-funded projects.

d. The multiple requirements for mitigation of impacts and enhancement of fish and wildlife habitat imposed by different agencies should be evaluated by the WRC and adjusted as required to reflect the overall national interest. Evaluation principles nominated for consideration include:

(1) Recognizing that adverse habitat impacts may be mitigated in whole or in part by substitution of different habitat systems.

(2) Requiring that mitigation requirements be raised during the early planning process as a part of alternatives development.

(3) Minimizing the amount of land taken from the tax rolls for mitigation.

(4) Identifying clearly to the public and to Congress the initial and continuing costs of mitigation and enhancement.

F. Project Construction

1. Problems and issues

a. Responsibility for construction of water resources projects could be assigned to any of the following entities, or any combination of them in a cost-sharing partnership:

(1) Industry or other nongovernmental organization

(2) Local government

(3) State government

(4) Regional entity

(5) Federal government

b. Federal responsibility for water resource project construction can be discharged either through direct construction by a federal agency, or by others using federal funds.

c. Federal agencies differ in what they can do and where they can perform. In water resources construction, only EPA, the Corps of Engineers, and the Soil Conservation Service have nationwide scope--albeit with limited functional authority.

d. Competence of state and local governments in water resources construction is not uniform and is less certain than that of federal agencies. Many states are demanding a stronger role in water resource management, and federal manpower and budget allocations are insufficient to support total project execution by the federal government.

e. Failure to assign the total developmental role, from study to construction, of any given water resources project to a single agency reduces efficiency, practicality of recommendations, and feedback of lessons learned.

f. Financial management of construction grant programs is more difficult than is management of construction execution programs.

g. Dependence on federal grants eliminates state incentives to allocate local funds to the purposes supported by the federal government.

h. Nonfederal levels of government can frustrate the congressional requirement for cost-sharing contributions through use of other federal funds.

2. Conclusions

a. Existing federal water construction agencies should continue to construct projects with interstate impact and scope appropriate to their areas of special expertise. (The Corps of Engineers derives a special national defense related benefit from public works construction experience which should be considered in making agency responsibility assignments.) Projects of lesser impact and scope should be constructed by nonfederal entities where they possess the requisite ability and experience.

Special-purpose federal agencies (such as TVA) should be limited to construction activity essential to accomplishment of the agencies' mission and without substantial water resources impact outside their geographical area of responsibility.

b. Execution agencies normally should accomplish the full range of functions on any given water project from feasibility study through project construction to insure that responsibility is fixed firmly and that lessons learned are exploited promptly.

c. Construction grant programs for water resources projects should be restructured as necessary to insure that contributions from nonfederal sources do not utilize federal funds from other sources.

G. Project Operation and Maintenance (O&M)

1. Problems and issues

a. The federal government is not uniformly reimbursed for project costs where there is a vendible output, such as water supply, power, recreation, and navigable passage. In the majority of federal projects, vendible primary outputs are sold at statutory rates, many of which are below the cost of production. Auxiliary outputs, such as recreation, frequently benefit from water resources projects without paying their full share of the O&M costs, allocated as well as separable.

b. Resources for specialized O&M functions frequently come from the constructing or operating agencies' budgets rather than from the agencies responsible for the specialized functions. This diverts the operating agencies' funds from their normally assigned responsibilities and functions, and it reduces visibility of annual public costs for these specialized purposes.

c. O&M expenditures often are deferred repeatedly, with resulting higher final costs and degraded levels of service.

d. Attempts at compromise between service levels and cost often lead to low-quality performance.

2. Conclusions

a. O&M costs should be identified clearly with the function supported. Separable functions should bear their proportionate share of O&M costs.

b. Actual costs of furnishing power and municipal and industrial water supply should be recovered.

c. Full recovery of navigation and irrigation water supply O&M costs should be a long-range policy objective.

d. Specialized O&M costs (for fish and wildlife, recreation, etc.) should be allocated directly to the responsible functional agency at the local, state, and federal level according to a formula developed concurrently with final development plans.

e. O&M budget requirements should receive a higher level of priority consideration than has been the case historically, even at the expense of new work.

f. Where budgetary pressures dictate austerity, facilities should be closed before low levels of performance are approved.

g. O&M funding priorities should align with national development priorities for water resources projects.

H. Role of Conservation in Water Policy

1. Problems and issues

a. Water conservation policy should discriminate between consumptive uses and uses which return a substantial percentage of the water to the stream or subsurface supply without severe quality degradation.

b. Irrigation presently accounts for approximately 47% of water withdrawn from available supplies in the conterminous United States. More efficient use of water for irrigation is essential.

c. Irrigation water supply is often priced well below actual cost. This discourages conservation.

d. Many municipal water supply systems have deteriorated seriously, with losses at or above 50% in some systems. Although municipal losses do not represent a consumptive use, they are wasteful of surface water supplies and are costly. Because of system neglect and underpricing of water furnished, or diversion of revenues, most municipalities have little of the capital required to replace their systems.

2. Conclusions

a. A rational water conservation policy should: (1) Address both the quality and quantity of affected water resources, (2) Both include the conservation of existing resources and recognize the need for development of selected new resources, and (3) Apply conservation practices as a response to specific needs and not as an end in themselves.

b. Future water conservation goals should require the most efficient use of water to support an optimum agricultural yield. This should consider the techniques, timing, and amount of water applied.

c. Water research funds should be concentrated where the greatest potential demand reduction is possible without unacceptable impact.

d. Changes should begin now to price irrigation water realistically, thus encouraging greater conservation. The policy should recognize that much of the irrigation water withdrawn is returned to surface or groundwater reservoirs without significant quality degradation. During years of high water availability, the price structure should encourage greater application of irrigation water to prevent deleterious salt buildup in susceptible soils.

e. Planning should begin on a long-term national program to assist municipalities in replacing deficient water supply systems.

I. Management of Groundwater Resources

1. Problems and issues

a. In 1975, of the estimated total daily withdrawal from fresh surface and groundwater sources for uses in the conterminous United States, 24% was from groundwater. Of the groundwater withdrawals, 26% was derived by overdrafting aquifers. This results not only in declining groundwater levels but also in reduced stream flows and saline water intrusion and/or subsidence in many areas.

b. Serious groundwater pollution problems from a variety of sources exist throughout the United States. Groundwater pollution already has caused the abandonment of municipal and private domestic wells in some areas.

c. There are about 200 interstate aquifer systems, some of which are also international in extent, in the conterminous United States. Some of these, such as the Ogallala Aquifer which underlies portions of eight states, are being depleted rapidly. The Ogallala Aquifer supplies irrigation water for about 20% of the Nation's irrigated acreage. For many of these overdrawn aquifers, there is presently no source of, or prospect of, supplemental water to replace the overdraft for support of the existing economy.

d. Until very recently, comparatively little attention was accorded groundwater in federal planning, development, management, and regulatory programs of water and related land resources.

e. State water laws concerning groundwater vary widely; some states have practically no effective statutes. Similarly, state court decisions involving groundwater are widely divergent, frequently because the basis for groundwater rights varies widely, or because statutes and court decisions generally have considered groundwater separately from surface water, ignoring or lacking understanding of the interrelationships between surface and groundwaters.

f. In only a few instances, particularly in California and Florida, are there any attempts at the state or local level to manage groundwater resources together with surface water resources. There presently are no attempts to manage interstate aquifers comprehensively on an interstate basis.

g. Underground storage capacity which could be developed and utilized is a potentially valuable resource that is poorly understood, underutilized, or not used at all.

h. Surface developments are adversely affecting groundwater recharge in both quantity and quality, especially in the recharge areas.

2. Conclusions

a. The Nation's groundwater resources--the groundwaters, the potential underground storage capacity, the conveyance capacity of aquifers, and the treatment capacity--must be more effectively managed and utilized.

b. Management programs must be specifically designed for each groundwater resource system so that the economic and social order are served properly. They will require comprehensive data bases and should include quality protection as well as quantity considerations. Groundwater resources and surface water resources should be considered as integrated systems.

c. Present levels of aquifer recharge should be maintained, and, where feasible and desirable, improved in both quantity and quality. Surface developments in recharge areas should be carefully planned and controlled to this end.

d. The federal government, working with the concerned states and local agencies, should develop the legal and institutional frameworks (to include creation of regional commissions) necessary for comprehensive management of those interstate groundwater resources systems with serious overdraft and/or quality problems.

e. The federal government and the states should encourage and assist local agencies to develop and implement groundwater resources management programs through planning, financial incentives, and, where necessary, policy direction.

f. Primary responsibility for groundwater resources management should rest with state government and regional and local agencies. State governments should establish the framework for statewide groundwater management, including the adoption of adequate law and regulations. Substate and local agencies should bear principal responsiblility for actual management.

g. Where necessary for implementation of comprehensive river basin, state, or regional water resources plans, state laws should provide for implementing agency use of underground storage capacity if accompanied by proper safeguard of local interests.

h. Areas now dependent on groundwater mining should investigate thoroughly the economic, environmental, and social implications of continued mining and eventual depletion of the groundwater. A water conservation program should be implemented in all such areas immediately.

J. Regulatory Reform

1. Problems and issues

a. The regulations of several agencies at both federal and state levels impact on most water resources projects. Many of these are developed singly with a specific functional purpose in mind. Foremost among these agencies are those concerned with environmental protection, fish and wildlife management, clean water, coastal zone management, and wetlands management. Their regulations can -- and frequently do -- grant veto power over water resources projects in any phase of the development cycle: planning, design, construction, operation and maintenance, rehabilitation, and modernization.

b. Water resource rules and regulations are used frequently to accomplish other national objectives, to the detriment of water resource management. Interest in coastal zone management, wetlands protection, and other environmental objectives has led to the development of a body of related regulations which impact massively on water resource management. Yet there is no apparent comprehensive assessment of the total impact and interrelationship of these regulations with other public interest objectives.

c. The national principles and standards governing water resource development, including formulae for cost sharing, interest rates, etc., frequently change with Administrations, with consequent impact on water resource development and projects. Water resource development is a long-term, high-capital investment process. Short-term fluctuations in the rules and regulations governing the overall process, or any aspect of the process, lead to interruptions and changes. Those interruptions and changes create inefficiencies in the use of capital and in the employment of skilled manpower.

d. One result of the current federal regulatory process is an apparent bias toward constraining water resource development. Many agencies without direct responsibility for planning and executing a water resource project can nevertheless cause modification or prevent execution of that project. The agency with responsibility may be denied the authority to discharge that responsibility. The list of agencies with veto power is growing through passage of additional laws and issue of new regulations. This trend is toward bringing water resource development to a virtual halt at a time of growing need.

2. Conclusions

a. The Nation must develop a long-range water resource management strategy. Rules and regulations governing environmental and resource concerns which interrelate with water resources should be developed, or be adjusted, to be consistent with that strategy.

b. Once promulgated, rules and regulations consistent with a long-range water resource strategy (particularly the national principles and standards) should not be changed unless compelling need arises. Changes should be permitted only after review by the reorganized WRC and their finding that the change is consistent with the long-range strategy. The proposed change should be prospective in application.

c. Federal agency rules and regulations and those of state and local authorities should be made consistent among themselves and either uniformly enforced or rescinded.

d. Agencies with primary responsibility for a particular water resource project or function should either have authority expeditiously to resolve impasses generated by the rules and regulations of other agencies, or have ready access to superiors possessing such authority. Machinery should exist to resolve impasses arising both within and external to the federal government. Project abandonment under some circumstances may be the only responsible course of conflict resolution.

K. Energy and Water Resources

1. Problems and issues

   a. Water availability is crucial to the Nation's struggle for energy independence, but too much energy-oriented planning has ignored this fact.

   b. The practicality of extraction, processing, and transportation of the fuels can be affected dramatically by water availability.

   c. The impact on existing institutions and the economics and environmental effects of reassigning water to energy-related purposes have received too little attention. The availability of water for support of energy-related initiatives, both politically and physically, has been too often assumed, with inadequate justification.

   d. There is no effective organizational mechanism for resolution of conflict generated by competing national programs, short of returning the problem to Congress itself.

2. Conclusions

   a. The Department of Energy, as a full member of the WRC and with voting representation on each basin commission, must accept responsibility for insuring full consideration of water-resource-related impacts on energy-related programs, plans, and projects.

   b. The President should propose and Congress should enact law to establish both national water use priorities related to energy development and a mechanism for dispute resolution without resort to costly and time consuming litigation.

L. Water Resources Research

1. Problems and issues

   a. Duplication, redundancy, and obvious voids occur in coverage provided by the federal government's water resources research programs. Roles and responsibilities are not clearly established, and there is inadequate oversight within the Executive Branch of government.

   b. Additional research is needed to:

      (1) Understand better the natural hydrologic cycle to include groundwater resources.

      (2) Predict effects of large-scale modifications such as new impoundments.

(3) Develop new products to decrease line losses in water delivery systems.

(4) Breed new strains of plants with lower evapotranspiration characteristics.

(5) Improve desalinization processes.

(6) Reuse wastewater.

(7) Recharge groundwater.

(8) Reduce water requirements of agricultural, industrial, and mineral extraction processes.

c. Collection of basic data has lagged behind needs.

2. Conclusions

a. The WRC should be directed to establish an office to review, modify, approve, and, if necessary, direct initiation of water resources research in the federal government.

b. Research program priorities should concentrate on improving efficiency, avoiding duplication and omissions of coverage, and aligning budgetary support with the national water resource management strategy.

c. Laboratories and research facilities should remain as now assigned, thus avoiding an operational role for the WRC.

d. Basic data collection should enjoy a budgetary priority in keeping with its importance to problem solution.

IV. RECOMMENDATIONS

A. For Congress

1. Immediate. It is recommended that: The Water Resources Planning Act Amendments of 1980 be expanded/revised as follows:

    a. The Water Resources Council should be reorganized according to Exhibit 1 (p. 29).

    b. The Council Chairman will be appointed for a term of four years.

    c. The Council will resolve water resource development and related land resource program, project, or regulatory conflicts between federal agencies or those referred by regional commissions, on the basis of broad national interest and in support of a national water resource management strategy.

    d. The term "water resources" includes water used for navigation, flood control, water supply (municipal, industrial, and agricultural), hydropower, and water quality, plus recreation and fish and wildlife purposes.

    e. Basin commissions will be established for all areas of the Nation. Existing commissions will be reorganized to conform with standard organization and operational requirements. Membership in the Commission will be mandatory for states wishing to participate in federally-funded projects. Actions of each commission shall be approved by a simple majority of members.

    f. Basin commissions will develop comprehensive basin/area plans for resource management of both ground and surface waters, prioritize these projects for national budget submission, and identify conflicts to the WRC.

    g. The WRC will codify water resource policy statements of the federal agencies; review them for consistency, omissions, or duplication; recommend appropriate additions, deletions, and changes; then it will act as custodian for these and future national water policy statements.

    h. The WRC will review water resource management agency budget requests, to include EPA's, and provide its assessment of the degree of compliance with national policies, the national management strategy, and adopted state and regional project priorities. This assessment statement will accompany the budget submission to the President and to Congress.

i. The WRC will conduct a review of planning reports and it will provide its advice as to compliance of recommendations with national policy, management strategy, and state/regional priority preferences. The professional staff's assessment will accompany the report through the Executive Branch review process to Congress.

j. The WRC will recommend programs to Congress for funding based on regional and national priorities and the national interest.

k. EPA water quality management planning and projects are fully subject to The Water Resources Planning Act.

l. Project funding will be subject to the following principles:

    (1) Distribution of resources will be based on national and approved regional priorities.

    (2) The assigned federal execution agency will retain financial management responsibility.

    (3) Projects requested by state or local interests will follow the same review and approval process as do federal projects if supported with federal funds.

m. Each federal agency will budget for its share of project O&M funds for water resources projects in accordance with proportions established in the authorization. Vendible project outputs will be sold at not less than the cost of production. Full recovery of navigation O&M costs through collection of user fees will be recognized as a long-term objective. Irrigation water pricing will be flexible to consider availability, present commitments, the need for and opportunity for conservation, and the national interest in agricultural production. Full recovery of costs is recognized as a long-term objective.

n. Basin commissions will establish, and encourage states to establish (through incentives), management programs for groundwater systems as part of their comprehensive basin planning. Minimum program objectives include:

    (1) Treatment of ground and surface waters as an integrated system.

    (2) Protection of groundwater quality.

    (3) Systematic recharge of aquifers, with improved quality water as well as an increased quantity where feasible and needed.

(4) Expanded utilization of underground storage where appropriate.

(5) Conservation to eliminate or avoid overdrafting the resource.

o. The Department of Energy will insure coordination of energy-related development with water resource management plans. The WRC will review joint water-energy projects to insure that they have optimized their contribution to national goals and objectives.

p. The WRC will form an office to review and approve all federal water resources research.

2. Long Range. It is recommended that:

a. New federal policy be developed regarding:

(1) Cost sharing

(2) Fish and wildlife mitigation and enhancement, and endangered species protection.

b. A new national program be launched to assist municipalities to replace water supply systems.

B. For the Executive Branch

1. Immediate. It is recommended that:

a. National cost-sharing rules and policies be reviewed, revised as recommended herein, made available for public comment, and then forwarded to Congress for adoption. Key concepts recommended for inclusion are:

(1) In exchange for federal fund support, both identifiable project beneficiaries and problem contributors will pay a reasonable share of project costs.

(2) All federal agencies will follow identical cost-sharing policies for like projects.

(3) States must adopt cost-sharing policies consistent with federal policies to qualify for federal project funds.

(4) Federal costs for nonfederally consumed hydropower and municipal and industrial water supply will be fully recovered.

(5) All states receiving federal water resource funds will adopt laws or regulations which:

(a) Establish a requirement to conserve in water deficient areas.

(b) Avoid granting water rights in perpetuity.

(c) Require periodic review of assigned water rights to insure continuing need and reasonableness of use.

b. Indian water rights claims be resolved promptly based on requirements, availability, and equity.

c. Interstate water compacts awaiting completion of negotiation be revised as necessary to conform with the thrust of a national water strategy, and then be finalized promptly.

d. The WRC be directed to serve as custodian of all national water policy pending legislation for this purpose.

e. The WRC reevaluate various requirements for project fish and wildlife mitigation and enhancement by federal agencies, and then propose new principles to Congress for adoption. It is further recommended that these principles include:

(1) Specific authority to consider substitute habitats or environments generated by a project in lieu of special efforts to recreate pre-project conditions.

(2) A requirement for all concerned agencies to present their mitigation comments during the alternative development phase of project planning.

(3) A requirement that public lands will be intensively managed as the preferred mitigation measure in order to minimize the amount of real estate taken from tax rolls.

(4) A requirement that the total life-cycle costs of mitigation and enhancement be identified separately and displayed prominently.

f. Where nonfederal entities possess the requisite construction ability and experience, they be assigned responsibility for construction of water projects with less than interstate impact and scope.

g. Water project construction execution agencies be responsible for a project from feasibility study through project construction.

h. Special-purpose agencies, such as TVA, be limited to construction activity essential to mission accomplishment and with an impact limited to their geographical area of responsibility.

i. Water resource construction grant programs be restructured as necessary to insure nonfederal contributions from nonfederal sources.

j. Agricultural research be concentrated on determination of the most efficient uses of water to accomplish optimum crop yield.

k. Plans for interbasin transfers should show consideration of the reasonable futures of both the supply and need basins, and include consideration of the quality as well as quantity characteristics of affected waters.

2. Long Range. It is recommended that:

a. A national, long-range water resource strategy be developed. All rules and regulations of water-related federal agencies should then be compared to that strategy for consistency and appropriateness. Additions or deletions should be made available for public comment and then submitted to Congress for action.

b. The legal and institutional frameworks necessary for comprehensive management of interstate groundwater systems be developed and submitted to Congress for adoption.

C. For NSPE

Immediate. It is recommended that:

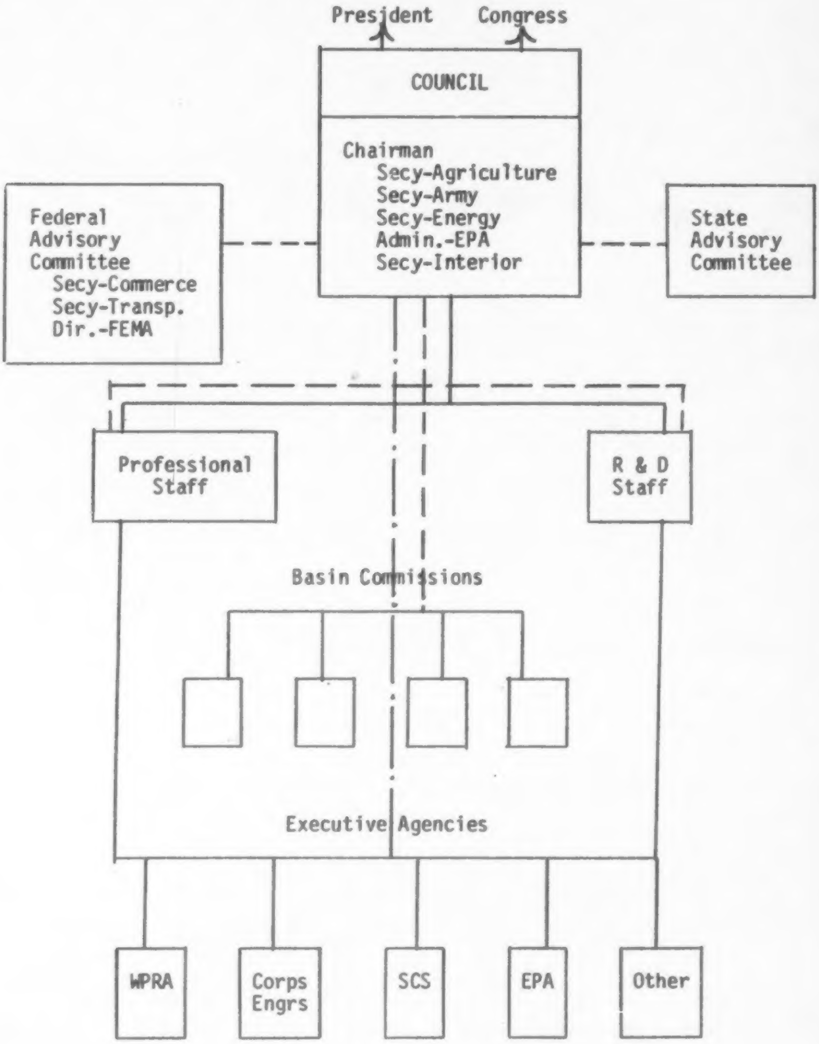
a. The National Society of Professional Engineers approve this report as recommended by its Water Policy Task Force and adopt its findings, conclusions, and recommendations.

b. Distribution of this report, in full or abridged editions, to governmental officials, other engineering societies, and the public at large be authorized.

c. The National Water Policy Task Force continue its work during the coming year for the purpose of advising the Executive and Legislative Branches of specific changes needed to effect statutory and regulatory reform, and for the purpose of implementing an information plan to inform the public.

NSPE PROPOSAL FOR A REORGANIZED WATER RESOURCES COUNCIL

EXHIBIT 1


President
Congress
COUNCIL
Chairman
Secy-Agriculture
Secy-Army
Secy-Energy
Admin.-EPA
Secy-Interior
Federal Advisory Committee
Secy-Commerce
Secy-Transp.
Dir.-FEMA
State Advisory Committee
Professional Staff
R & D Staff
Basin Commissions
Executive Agencies
WPRA
Corps Engrs
SCS
EPA
Other

LEGEND

Project Reports and Budget Proposals ________
Advice and Information - - - - - -
Conflict Resolution ___.___

EXHIBIT 2

DIMENSIONS OF THE DEVELOPING WATER CRISIS

(Conterminous United States)

Annual Averages for 1975

Water Supply - 1450 bgd accumulates in ground or surface storage and flows in streams.

- Because of precipitation extremes, only 675 bgd are available 95 out of 100 years.

- 393 bgd are withdrawn from surface and ground sources

  (64%) 254 bgd from fresh surface water sources
  (15%) 58 bgd from saline surface sources
  (21%) 81 bgd from aquifers (groundwater)

- Large Reservoirs

  47,000 with 50 to 5,000 acre-feet - 20% of storage
  1,600 with 5,000 to 2 million acre-feet - 37% of storage
  31 with over 2 million acre-feet - 41% of storage

- Small Reservoirs & Farm Ponds

  1,800,000 with under 50 acre-feet - 2% of storage

- Aquifers/Groundwater Reservoirs

  Most are within 2,500 ft. of land surface and contain about 50 years of surface runoff.

  30% of Nation's streamflow is supplied from groundwater springs and seepage. (48% of the total fresh water used in California is from wells.)

  Of the 81 bgd withdrawn from groundwater:

  21 bgd (26%) is overdrawn (withdrawal exceeds replenishment)

  56 bgd (68%) for irrigation (which is 35% of all irrigation)

  40% of the population derives drinking water from groundwater.

Water Use

- Irrigation accounts for 47% of total national use.

  Delivery system improvements could save 10% or more.

  Better water management could save 10-40% or more.

- Desalinization: More than 330 plants produce 0.1% of Nation's total water. 54% of these plants are in California, Texas, and Florida.

- Domestic systems use only 6% of Nation's total water.

- Total Withdrawals and Consumption By Functional Use

% Withdrawals		Function Use	% Consumption	
1975 -	2000		1975 -	2000
8.5	12.1	Domestic & Commercial	6.9	7.0
17.2	10.1	Manufacturing & Minerals	7.7	13.6
47.5	51.0	Agriculture	82.8	70.4
26.3	25.9	Steam Electric Generation	1.3	7.8
0.5	0.9	Public Lands & Others	1.3	1.2
100.0	100.0		100.0	100.0
338	306	bgd	106	135

- Manufacturing withdrew 60.9 bgd which was recycled 2.2 times before 90.5% returned to surface water.

  In the year 2000, 21.9 bgd will be withdrawn, recycled up to 22 times.

- Agriculture: Irrigation and livestock, 47.5% of Nation's usage. Livestock uses only 1% of agricultural water. Irrigation withdrawals were 159 bgd, with 86.4 bgd consumed. This was 81% of total consumed water, and almost 1/3 of it was in California. There are 45 million acres of irrigated farmland.

- Energy: steam-powered electricity generation uses 89 bgd (26%).

- Minerals industry uses 7.1 bgd (2.1%); by 2000, will use 11.3 bgd (3.7%)

- Instream Use: Recreation today can use about 20 million acres of surface waters. About 33 million acres needed by 2000.

  Hydropower supplies 15% of Nation's electricity

  Navigation - 25,000 miles of channels and canals

Source: THE NATION'S WATER RESOURCES 1975 - 2000, Volume 1: Summary, Second National Water Assessment by the U.S. Water Resources Council, December 1978.

ASSOCIATION OF
AMERICAN RAILROADS
AMERICAN RAILROADS BUILDING · WASHINGTON, D.C. 20036

INTERMODAL POLICY STUDIES GROUP
Office of the President

June 16, 1981

Honorable James Abdnor
Chairman
Subcommittee on Water Resources
Committee on Environment and Public Works
United States Senate
Washington, D.C. 20510

STATEMENT FOR THE RECORD:
WATERWAYS POLICY, JUNE 18

Dear Senator Abdnor:

I enclose two copies of a statement of William H. Dempsey, President, Association of American Railroads, which deals with water policy in the United States, which is the subject of your June 18 hearings.

As Mr. Dempsey testified June 16 on waterways user charges, we did not think it proper to request additional time of your Subcommittee so that Mr. Dempsey could testify on this subject. Therefore, we respectfully request that the enclosed statement be included in the record of proceedings, and that the statement be carefully considered by Subcommittee members.

Yours truly,

FRANK N. WILNER
Director, Waterways Studies

Before the
Committee on Environment and Public Works
Subcommittee on Water Resources
United States Senate

Written Statement of
William H. Dempsey
President, Association of American Railroads
Washington, D. C.
June 18, 1981
(Submitted for The Record)
Regarding
Waterways Policy

My name is William H. Dempsey and I am President of the Association of American Railroads. Our members operate 94 percent of the total railroad mileage in the United States, employ 92 percent of the nation's railroad workers, and handle 98 percent of the nation's railroad freight traffic.

America's freight railroads compete vigorously with the inland commercial barge industry for four principal commodities. Those commodities are coal, grain, ore and chemicals -- and they represent 45 percent of the total revenues earned annually by the nation's freight railroads. Additionally, within 500 miles of the Mississippi River alone, those four commodities represent about 30 percent of total revenue ton miles hauled annually by the nation's freight railroads. Clearly, National Waterways Policy, where it affects inland navigation, is of significant concern to America's freight railroads.

I testified June 16 as to why full cost recovery, through user charges, of Federal expenditures for navigation related construction, operation and maintenance is essential to competitive equity between the modes.

Today I wish to point out to this Subcommittee why certain reforms in waterways policy toward navigation improvements are also essential to competitive equity -- and why full recovery user charges alone will not ensure a restoration of competitive equity.

The Congress is familiar with the financial crisis being faced by the U.S. St. Lawrence Seaway Development Corp. The U.S. portion of the St. Lawrence Seaway represents the only waterway in the history of this nation that ever was required to recover 100 per cent of its construction, operation and maintenance costs. Yet it became apparent, soon after the Seaway's opening, that the benefit-cost analysis used to justify that project was in error. Congress, in 1970, was forced to forgive all interest on the remaining debt of the Seaway in order to stave off bankruptcy of the Seaway Development Corp. A new principal repayment schedule also had to be established, but the Development Corp. is again warning of default if additional concessions are not made. Clearly, benefits do not exceed Seaway costs, because beneficiaries are not willing to pay those costs in the form of full recovery vessel tolls.

On the inland waterways, barge operators have already warned Congress than anything approaching full recovery user charges on certain waterways or their segments will result in a closing of those waterways or segments. The Missouri River is a perfect example of such an existing waterway, and the Tenn-Tom is soon to become another example. Yet both waterways, according to U.S. Army Corps of Engineer studies, had benefit-cost ratios greater than unity when navigation improvements were proposed. The existence of positive benefit-cost ratios means benefits are greater than costs. But if benefits are truly greater than costs, beneficiaries should not only be capable, but should be willing to pay all the costs.

We believe the problem of elusive benefits lies with the manner in which the U. S. Army Corps of Engineers computes benefits. According to the Principles and Standards promulgated in 1965 by the U.S. Water Resources Council, projects must provide net benefits in the areas of national economic development and environmental quality. Economists agree that national economic development means a net increase in the amount of goods and services produced.

The Corps, however, confuses regional transfers with national economic development. If a waterways project results in the closing of a plant in New York, for example, with a loss, say, of 500 jobs, because that plant may relocate in Alabama along an improved river, the Corps counts the relocation and new jobs as positive benefits, but ignores the negative effects on the State of New York. But that activity was merely a regional transfer, not national economic development. The result is concealed costs and bloated benefits.

The Corps also fails to recognize other negative effects, such as reductions in railroad and motor carrier employment, as well as warehousing, business and banking losses resulting from new navigation projects. For example, an independent consultant, hired by the Corps to measure both positive and negative benefits associated with a proposal to extend the navigation season on the Great Lakes and St. Lawrence Seaway, identified $803 million annually in negative benefits. The Corps, however, ignored the consultants' report and only reported the positive benefits. Had the negative benefits been balanced against the positive benefits, as identified by the Corps' consultant, the projects' benefit-cost ratio would have fallen from 3.94 to 0.24.

The solution to the concealed costs and bloated benefits problem is for Congress to require that the Corps identify both positive and negative benefits associated with a project, that the Corps not confuse regional transfers with national economic development, and that an independent review agency monitor study activities of the Corps. While the U.S. Water Resources Council was empowered to conduct independent reviews of Corps study activities, Congress never provided funding for such an activity. The result was that the Corps was reviewing its own work. We would suggest that a truly independent review function be established, and funded. Such a function might be assigned the Office of Management and Budget.

We would also suggest that any study of a new or existing navigation project, for purposes of construction or rehabilitation, require a determination of the ability of other modes to meet any future traffic projections. If expansion of the facilities of other modes can be accomplished at less cost than the cost of the proposed navigation project, such information should be made public before Congress is asked to authorize the navigation project. Since general taxpayers may eventually have to absorb some or all of the costs of navigation construction, user charge legislation notwithstanding, the general taxpayers have a right to know if alternatives to navigation improvements represent lower total costs to society.

Additionally, there must be some mechanism to require reauthorization of a navigation project if it is not funded and construction begun within a reasonable period. Too often, many years pass between authorization and appropriation, resulting in vastly changed benefit-cost ratios. Currently, there is no procedure to require a restudy of the benifits and costs of a project for which funds have not been appropriated until many years after it was first authorized.

Finally, we understand Congress' concern with the long delays between project authorization and project completion. Some of those delays could be prevented by implementation of the above suggestions. We are concerned that in its haste to alleviate project completion delays, Congress will pass legislation which rations justice. Language in some port development legislation would limit judicial review to the Federal district court closest to the project's location, as well as place a limit on the scope and timing of such judicial review. We do not believe that justice should be rationed. Nothing is more fundamental to a just America than access to the courts. A more sensible alternative would be the establishment of clear and simplified procedures, as suggested June 8 by Assistant Secretary of the Army for Civil Works William Gianelli.

I want to again express my appreciation for the opportunity to participate in these important hearings.

STATEMENT OF

J.W. O'MEARA
EXECUTIVE VICE PRESIDENT
NATIONAL WATER RESOURCES ASSOCIATION

before the

SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE

June 18, 1981

Mr. Chairman and Members of the Committee:

My name is Pat O'Meara, and I am the Executive Vice President of the National Water Resources Association. NWRA is a confederation of the State water associations in the 17 Reclamation States and Hawaii. For many years, our association was known as the National Reclamation Association, but we changed our name about 10 years ago to underscore the fact that as a group we were interested in all water activities and not just the programs of the Bureau of Reclamation.

We are organized to promote the development, control, conservation, preservation, and utilization of the water resources of the Nation. We have worked, and we continue to work, to increase the development of irrigated lands. We endeavor to cooperate with and assist, when possible, the coordination of Federal agencies dealing with water resources, and we strive to preserve the rights and interests of the States regarding their water resources.

We wish to commend Chairman Abdnor for setting these hearings to examine our national water policy, or, perhaps, more accurately, the lack of a national water policy. We thank the Chairman for giving us the opportunity to express our views on water policy, and to discuss some of the current issues that need prompt consideration and early resolution.

We did not get the opportunity earlier to testify on S. 1095. We did, however, present a statement to the Water and Power Resources Subcommittee of the House Interior and Insular Affairs Committee on a similar bill, H.R. 3432. We recommended against the enactment of that bill.

Our basic concern is that H.R. 3432, much as with S. 1095, is that it proposes to continue a revised Water Resources Council. We think the WRC is a nobel experiment that failed, and we are perfectly willing to accept President Reagan's action to establish a cabinet council on natural resources in its place.

We feel that this council will provide a far stronger policy and decision-making group than is proposed in either S. 1095 or H.R. 3432. We have every hope that the council, which will be supported by a strong advisory task force with representation from most of the involved departments and agencies, will be able to accomplish the objectives the WRC could not achieve.

Some of the river basin commissions that were authorized by the Water Resources Planning Act have been quite effective. The program opened the way for basinwide consideration of interstate deliberation and cooperation leading to more effective and efficient river management. The river basin commissions have a continuing role to play, but we believe it is encumbent upon the States to assume that responsibility because the States will be the beneficiaries of such undertakings. We would urge the cooperation of the Federal agencies involved in water resource development with any continuing activities of river basin commissions.

The biggest problem we have encountered with the abolishment of the WRC is the loss of State planning money. Some States have fiscal resources that would enable them to adequately maintain their planning functions, but others have relied on Federal funding to assist them in this work. The short notice of the funding cut back will make it difficult for some, and virtually impossible for others, to establish alternative revenue sources. Many legislatures already have adjourned and will not meet again for 2 years. It is unfortunate that the Federal assistance was not phased out over time rather than through an almost immediate cut off. Some of the States will face serious disruptions in their planning programs and, in many instances, trained, experienced personnel will be lost.

Interior Secretary Watt has said that he does not plan to establish a national water policy. In its place, he proposes to develop a mosaic of policies that are directly related to various regions of the country. We applaud this plan because the water resources and water usage across the length and breadth of this land are so diverse as to necessarily make any national policy so general that it would be meaningless.

We were certainly pleased by the statements presented to this committee last week by William Gianelli, Assistant Secretary of the Army for Civil Works, and Garrey Carruthers, Assistant Secretary for Land and Water Resources of the Department of the Interior. We want to repeat a part of the statement of Assistant Secretary Carruthers because it is fully compatible with the policy of our association. In his statement here on June 8, he said: "Our policy will be founded on the premise that water rights belong to the States."

Mr. Chairman, I would like to take this opportunity to thank and commend Senators Domenici and Moynihan for introducing S. 621. This does not imply an endorsement of the bill, but we feel it has served to focus attention on many of the problems we face in water resources development. In that regard, it already has had some significant impact. I understand that the Corps of Engineers and the Bureau of Reclamation are jointly working to develop a plan to streamline and expedite the time frame of project authorization, appropriation, and construction. Eliminating much of the project time lag is one of the objectives of S. 621.

We think it is appropriate, as S. 621 proposes, for the States to provide a percentage of project funding.

One of our concerns is the proposed forumla for allocating Federal funds to the States. The size and population of a State is not the only criteria for water project activities. I want to repeat that I said this was one of our concerns. We do not have a better suggestion to offer at this time, but we note H.R. 3432 proposed also to consider financial need and the need for improved water management for the determination of each State's allotment.

Whatever the final determination of State allotment under the block grant program authorized by S. 621, we would like to offer the following suggestion for your consideration.

Rather than block grants to every State, in lieu of a better name, let me propose a block revolving fund. Under this concept, the States could use grant funds for flood control or pollution control projects, but vendable items, those that provide a specific service, such as water distribution systems, would repay the water fund, both capital and interest.

Under the Reclamation program in the West, about 87 percent of the Federal investment in water projects is repaid to the U. S. Treasury by direct beneficiaries. We are perfectly content to continue this payback arrangement, but S. 621 would change our present loan system to grants. We don't think that is necessary.

As we continue the water resources development of the West through the Bureau of Reclamation, we think it is time to extend the authorization of the Bureau of Reclamation to operate in all 50 States of the Nation. Either that, or amend the authorization of the Corps of Engineers to remove some of the restrictions that now apply to Corps projects.

It is time to look at the basis of water project feasibility. The current Principles and Standards are under review. As they currently are drafted, they stand as a deterent to water project construction rather than a development guideline. The benefit/cost analysis needs to be revised and updated to reflect the current need and value of water. The present system ignores many project benefits that should be recognized.

These changes can occur, some are underway. The interest of this Committee in water policy is evidence of that. We look forward to working with the Congress and the Administration to effect what Assistant Secretary Carruthers described as a new beginning in water resources.

WATER RESOURCES POLICY ISSUES

THURSDAY, JULY 16, 1981

U.S. Senate,
Committee on Environment and Public Works,
Subcommittee on Water Resources,
Washington, D.C.

The subcommittee met at 10:05 a.m., in room 4200, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Stafford, Abdnor, Gorton, Murkowski, Randolph, Burdick, Moynihan, and Baucus.

Also present: Senator Warner.

OPENING STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator Abdnor. The Subcommittee on Water Resources will come to order.

Mr. Stockman, we are very pleased you have been able to take the time from your very busy schedule to testify before us today on the issues raised by S. 809 and S. 810.

The issue of cost recovery is extremely important not only as it relates to the development of ports and inland waterways but also to the development and management of other water resource programs. What we are discussing today is going to have, I am sure, broad consequences for the Nation's water resources program for many years to come. And I believe we must recognize that, while we list both under the general heading of navigational user charges, there are major differences between these two bills and the rationale for them, and that is the thing we want to discuss today.

The port proposal essentially is a technique for setting priorities. The waterway proposal, on the other hand, is designed to shift the cost to the waterways industry and its competitors.

As I see it, there are three issues here. First, how can we set priorities for developing needed water projects? Second, how should these projects be financed? And third, what should the Federal role be in project development and maintenance?

The administration's bills clearly address the question of financing, but they are not so clear in responding to the other questions. I believe that priorities can be set up if deep ports are constructed with non-Federal dollars. I also believe that there should be a continuing Federal role in maintaining ports at existing depths.

I think we will be able to report out a port bill before we adjourn this year.

I am not as convinced for the need of waterway user fees. I am concerned about the problem these fees may cause for many shippers, particularly the farm community. I certainly want to see what the results of the DOT study are before I take a potion on S. 810. We must have the results of this study before we proceed with any inland waterway legislation.

I have other concerns. We have to understand what the subsidies are for other modes of transportation. We need to know what the costs are that are related to navigation and other users of the waterways. I don't believe we should charge navigation users for all costs, only those that are related to navigation. I also think we should seriously consider phasing in the fees.

I want you to be aware of my concerns. I believe we are wise to begin a dialog on these issues. Today's testimony will begin that dialog between this committee and the administration, and I look forward to our dialog continuing in the coming months.

With that, I would like to call on the ranking minority member of the subcommittee, Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator MOYNIHAN. Thank you, Mr. Chairman, and may I associate myself with the position you have taken vigorously, directly, and with a clear sense of purpose from the beginning of your chairmanship on this subcommittee.

I would like to welcome our friend and distant relation at the other end of Pennsylvania Avenue, Mr. Stockman, and say to him that, in the view of this Senator—and I think it may be a more generally felt position on the committee—that the chairman has spoken of priorities. I would like to speak of two principles which seem to me ought to guide our considerations and our behavior.

The first principle will appear at first odd, and only in the last decade or so it would emerge in that category at all, and that is the principle that we have to get this work done. The discussion of how to do it, and so forth, has in fact brought a degree of entropy and, finally, exhaustion to the whole process. Water resources is an area of public policy which at this point has failed. We can't do anything. Nothing happens. The old free booting days, when these were free goods, and whoever was chairman of the subcommittee got two dams and the ranking minority got one and everybody else on the committee got a promise and nobody else got any, it has gone away with the environmental impact statement and budget deficit and whole range of things. Nothing happens.

Now in ports we have a major economic interest, a clear, palpable interest to producing a number of deepwater ports capable of supplying 40-, 50-foot depths to the Europeans for transport of American coal. We have the coal. We have the harbors. We have the Atlantic in between. What we don't have is the depth. So we have to do this. Not to do this is as if you decided you have the west Texas oil boom but you weren't going to drill.

The second principle, in my judgment, the decisions that are made by Government ought, as near as possible, be comparable to decisions that would be made by a free market. It is necessarily the work of Government to do this kind of enterprise. It was a matter settled by the Supreme Court in 1828. You continually have different States involved. These are Government projects, but they ought to go forward as if a market was making the choice, because we are only building them to enhance our foreign trade and to improve our economy. And, to the degree the decisions are economic ones, they will be optimal.

Those are my two principles, and I would like to hear from you as time goes on.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you.

Now I am very pleased to call on the chairman of the Environment and Public Works Committee who is here with us today, Chairman Stafford.

Senator STAFFORD. Thank you very much, Mr. Chairman.

I have no opening statement. I am very interested in what our distinguished witness will tell us this morning and join in welcoming him here. I will wait until we have had a chance to hear what he has to say.

Senator ABDNOR. Now I will call on the dean of this committee and who we sometimes still refer to as Mr. Chairman, Senator Randolph.

Senator RANDOLPH. I don't know whether I am a dean or not, but I know David Stockman very well. David was here on the Hill for 4 years, and he will not misunderstand when I say that in 30 days he made more of a splash of things in terms of water in the new administration than he did when he was here. We are delighted to have you counsel with us.

I do know that a study of your record, a good record, did not indicate that you took a particular interest nor did you make statements in reference to the subject matter before us. I don't believe, David, that you took any part in this type of discussion. So in a sense, although you are charged with a very heavy and definite responsibility by the administration, you come, I think, to counsel with us. Is that correct?

Mr. STOCKMAN. That is correct, Mr. Chairman.

Senator RANDOLPH. Thank you.

Senator ABDNOR. Thank you. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman. I certainly look forward to the testimony to be presented this morning, particularly the interests that I have in the user fees as they are applicable to waterways and harbors, and I look forward to the substantive matters to be presented here.

Mr. Chairman, thank you.

Senator ABDNOR. Thank you.

Senator Baucus, glad to have you with us.

Senator BAUCUS. No statement, Mr. Chairman.

Senator ABDNOR. I would like to mention that Senator Domenici had wanted to be here today. He has a great interest in this matter of user charges. I also know there are people in the audience who know his mother passed away last night, and I am sure all of us share with him a great sense of sympathy over his loss. We are sorry he can't be here.

Senator STAFFORD. Mr. Chairman, if you would yield to me very briefly.

Senator ABDNOR. Certainly.

Senator **Stafford**. As chairman of the full committee, and I am sure Senator Randolph would join me, and all of us present on the committee, since Senator Domenici is a member of this committee, and has been for years, I would propose we send an appropriate message of condolence to Senator Domenici from the committee.

Senator **Randolph**. Yes, I think it is very right that we do that.

Senator **Abdnor**. An excellent idea. We certainly will.

Mr. Stockman, it is all yours.

STATEMENT OF HON. DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. **Stockman**. Thank you, Mr. Chairman. I am delighted to appear before you today and other members of the committee, and especially to be instructed, once again, by my old mentor in water policy, the Senator from New York, Mr. Moynihan. As the committee may know, I have had long instruction in matters of water policy going back to the time I was a graduate student living at his home in Cambridge, at which time I was instructed in the art of washing dishes and stringing the laundry, and we have been learning together every since.

So I am delighted to hear his thoughts because they are very much in accordance with the statement and testimony I would like to deliver today.

Mr. Chairman, I have a quite lengthy prepared statement that I would like to insert in the record, and then just cover some highlights so we can go into questions and bear down on those topics you are concerned about.

Senator **Abdnor**. I am sure there is no objection, and your statement will be made a part of the record. (See p. 497.)

Mr. **Stockman**. Mr. Chairman, one of the key reform criteria we used in drafting the President's economic program was to recover clearly allocable costs from users, wherever possible, because when the Federal Government renders a service directly to a business enterprise at less than cost, that service amounts to a subsidy. Subsidies not only increase the size of the Federal budget, but almost inevitably distort the workings of the marketplace. Such distortions decrease economic efficiency and result in less output and lower living standards for the Nation as a whole. I believe that the user fee proposals which are pending before your committee, and which we will discuss today, will not only help to reduce the Federal budget deficit, the most immediate short-term concern, but even more importantly for the long range will help us create a more efficient transportation system and more productive national economy.

Let me start first with a few comments on the deep draft user charge proposal and then move on to the inland water fee.

The administration's deep draft user charge is intended to place Federal dredging activities on a business-like basis. That is an essential of the whole proposal. The bill calls for a contract between an interested non-Federal public body—in most cases that is going to be the port authority—and the Secretary of the Army. The contract would define the work to be done and the payments to be made and the conditions and terms. The process would be very similar to that which the port would follow if it were hiring a private contractor to do the work.

The contract would call for repayment of 100 percent of the actual operation and maintenance costs for each channel, port or project. Operation and maintenance user charges could be based on a projection of cost and then adjusted later to reflect actual corps costs as those totals were computed.

Where a port or channel serves naval, Coast Guard or other noncommercial, governmental traffic, the project sponsor's charge would be reduced accordingly. The project sponsor would be charged based on the proportion of nongovernmental or commercial traffic using the port.

Now in the case of new construction, when that is desired by a port—for instance, a deeper channel or larger turning basin—the cooperator would basically have three choices.

The first would be that the project could be done by the corps of Engineers, initially at Federal expense, but with the Federal cost reimbursed by the project sponsor at the yield rate for Treasury notes over a period of up to 50 years, depending upon the useful economic life of the project.

The second option would be the project could be done by the corps with the financing provided by a non-Federal public body through any means available to it. In this case the local port authority would provide the up-front finance or capital. If the Secretary finds the project to be justified, authorization would be automatic under the terms of the bill. Bypassing the Federal authorization and appropriations process could result in significant time savings, perhaps as much as 2 or 3 years, and possibly lower the ultimate cost of the project as well.

Then, of course, a third possibility is simply for the local entity to contract directly for channel construction with a private firm.

I want to say a few words about the objectives and rationale for this approach that we have proposed regarding the deep water ports.

One of the objectives obviously is to reduce the Federal budget deficit. The Corps of Engineers will spend about $320 million for deep draft operation and maintenance—primarily dredging—during the current fiscal year. If the user charge were to take effect in 1983, as we have proposed, then obviously the Federal budget savings would be of a similar magnitude.

In recent years, Federal deep draft construction expenditures have been low, about $100 million per year. It is very possible—and this accords with the opening statement by the Senator from New York—that deep draft construction outlays will have to rise substantially in the future and could constitute a very severe budget drain. I believe this is especially true over the next 3 or 4 years as we attempt to bring down to a much lower rate of increase the permanent level of the growth in the Federal budget. Therefore, just at that time where we need to initiate activities to improve the ports in this country to increase our international competitiveness, we are going to find a position in the Federal budget where discretionary or marginal dollars will be almost nonexistent.

Nevertheless, the United States will have to deepen some ports to remain competitive in the world market. Waterborne trade is rapidly increasing. Foreign commerce tonnage handled by U. S. ports doubled during the last decade. It is a growth rate of about 7 percent a year. A recent study done by the Maritime Administration indicates that the average draft of most categories of ships in the world fleet will increase significantly during the next 10 to 20 years. The draft of the average dry-bulk carrier—the class that includes coal carriers, I might add—will grow by 4 feet over the period. Tanker drafts are projected to increase by a further 8 feet by the year 2000. Yet, just three harbor deepening projects that would be needed in order to accommodate this trend and that are now being considered for construction—Norfolk, Mobile, and New Orleans—have a combined construction cost of more than $1 billion for these three projects alone.

Thus, these three projects might result in a combined drain on the budget of up to $400 million in a single year as activity gets fully underway. And I just can't see where the margin is, where the room is, in this very tight budget picture we face over the next 3 or 4 years for an additional incremental expenditure of that magnitude unless we can at the same time establish some financing mechanism to cover those costs. It is suggested if our deep draft proposal is accepted, or put into law, one or more of these projects might be privately financed in terms of the up-front capital cost and not require immediate Federal appropriations and outlays at all. Even if they should each use the available Federal financing mechanism we are proposing, the impact on the debt over 50 years or more would net in zero, as the Government investment was repaid.

Another objective of the bill is to lessen the distortions on the transportation system resulting from the Federal subsidy for dredging. I believe that not requiring users to bear the full cost of their activitities encourages overdevelopment of high-cost ports because dredging becomes a free good and induces a higher level of activity than would otherwise be the case. On the other hand, some ports receive less than optimal development and investment because of the rationing caused by tight budgets, and that tightness and rationing would become even more severe in future years as we look at the budget picture. Therefore, instituting a market test of the value of port maintenance and development will eliminate dredging that users are unwilling to pay for, and thus help to establish quickly where dredging is economically viable and where the priorities ought to lie and how the allocation of capital available for this purpose ought to occur.

Based on the small amount to be recovered relative to the value of trade, I believe that traffic diversions caused by the administration's deep draft operation and maintenances charges will be very small. In 1979, for example, waterborne exports and imports totaled 960 million tons, valued at $245 billion. If the administration's user charge proposal had been in effect in 1979, we would have recovered—and I would stress this for the committee—we would have recovered about one-tenth of one percent of the value of U.S. international trade, and an even smaller percentage of the value of total trade, including coast-wise movements.

Thus, as a result of operation and maintenance user charges, diversions of traffic to lower cost ports are likely to be significant only in infrequent or isolated cases because dredging costs are such a small component of the total cost of making, transporting and marketing products traded by water.

I believe, however, by contrast, that if project sponsors choose to recover construction costs for new development and for navigation improvement with user charges, this will be a significant factor in determining where new development and new capital investment takes place. Well over $400 million, for example, is at stake to construct a 55-foot deep channel at Norfolk. An investor would have to be quite certain the traffic could bear it before he would sign on the dotted line. With user charges in place, however, Federal funding would not be a constraint, and construction of well justified projects could move forward. I think the willingness of industry, local government and private investors to bear the liability for the cost is the best test of the probable worth of such development, given their long-time horizon and useful economic life.

Based on our preliminary data, harbor deepening at potential coal ports would be financially feasible under our construction user charge proposals.

Mr. Chairman, let me make a few remarks now on the shallow draft user charge, S. 810.

The administration's proposal for user charges on the inland waterway system is designed to recover the Federal cost of operating, maintaining and constructing the Nation's inland navigation system. In one form or another, similar legislation has been forwarded by Presidents for more than 40 years. In 1978, some progress was made on the issue when a modest fuel tax was enacted. We now have the first quarter's results on initial collections from the fuel tax. That result is $5 million, or less than half of the amount previously estimated. If this trend continues, then by 1986, when the tax has been fully implemented, it will yield less than 13 percent of the cost of maintaining the system, and that excludes, of course, the amortized costs of constructing and improving the system. Clearly, then, the tax is only a token contribution to the operating cost of our inland navigation system.

The administration's proposal would raise fees initially to recapture 100 percent of operation and maintenance costs for commercial navigation without recovering any of the capital investment on waterways open to traffic prior to October 1, 1981.

As new components are built and older ones replaced, however, capital charges with interest at the Treasury rate will be incorporated into the fee structure. It will probably take, therefore, more than 50 years for charges to reach 100 percent cost recovery for the capital component of total cost. We believe that this method of phasing capital costs into the fee structure over a long period of time substantially reduces the disruption that could occur or could be entailed in immediately moving to 100 percent recovery of Federal cost, especially for those already sunk in past investment.

But we are committed to eliminating subsidies to waterway users. We do not want to be disruptive to the Nation's trading patterns at least in the near term. At this time, we do not know which fees or combination of fees will yield the requisite revenue consistent with minimal disruption or change or reallocation of traffic. Therefore, the fee collection mechanisms allowed by the bill are deliberately flexible. The Secretary of the Army may, for example, promulgate license fees, lockage fees, congestion fees, and so on, in any way that will meet the cost recovery objective. However, in the interest of efficiency, we propose that these be varied commensurably with the cost of the various segments of the system since the cost differentials are so great among segments and components. The model developed by the Department of Transportation in response to section 205 of the Inland Waterway Revenue Act of 1978 will provide the Secretary with that extensive body of data and with the timely information that he needs in order to determine the best way to construct the initial fee schedule.

One of the controversial sections of the bill will be the section on cost assignment or cost allocation. Most navigation projects were authorized many years ago for navigation. Over time, however, new uses have been found for pools created by navigation projects, such as recreation and water supply. Recognizing such uses, we have reduced the amount to be recovered by fees to commercial users by 10 percent to reflect these extraneous or non-navigation uses. Similarly, 25 percent of total expenditures for work on the lower Mississippi River will be defined as maintenance of navigation features and will be subject to recovery through user charges. This is because such work is more in the nature of a continuous process rather than a one-time expenditure for construction. The cost allocation is in line with the corps' best estimate of the proper amount attributable to navigation.

I am convinced, Mr. Chairman, that imposition of user fees will increase overall national economic efficiency, and therefore economic output and living standards. If a plant locates in one region rather than another because the decision was biased by the presence of a subsidy, the Nation's overall economic efficiency is reduced and the Nation's output is smaller. Because the decisionmaker does not consider the cost of the subsidy when he makes a decision, but only his own internal costs, he may locate where it costs him less, but you, I, and the taxpaying public end up paying the difference both in higher taxes and also in opportunity costs. Some region of the Nation will lose investment and jobs and economic activity as a result of this bias due to the subsidy in the market.

I believe user fees will provide a test of the economic value of retaining some segments of the waterway system. As you know, once goverment operates something, there is no profit mechanism to tell it where to stop and when to slow down. I believe that when the waterway industry pays the cost of the system rather than receiving it free from the taxpayers that it will help identify unneeded segments, will help allocate future capital investment to its most efficient use, and will help show where cost reducing improvements should occur to the benefit of the national economy and to the Nation as a whole.

Mr. Chairman, let me also say that the initial fees on the waterways will be nominal compared to the overall cost of moving goods. When subsidies are removed there will be some impacts on waterway operators, shippers and receivers. Based on early reports from the section 205 studies, we expect the principal effect will be on the future growth, not current activity—and I underscore that. Overall, if railroads do not raise their waterway competitive rates as user charges are imposed, which we think in most cases is an unlikely assumption, inland waterway traffic will grow 30 percent rather than 42 percent between 1977 and 1990. There appears to be little effect on coal traffic, which will increase 100 percent with or without fees. Petroleum traffic, by contrast, will actually decline, whether or not there are fees. Movement of farm commodities will increase nearly as rapidly with or without fees—30 percent versus 42. And we could go on down making an analysis. But the point is no significant impacts have been found on production or for shippers or receivers of most commodities. Either they have low cost transportation alternatives or the cost of transportation is not a large part of the delivered price of their goods.

Because of your particular concern, and other members of the committee in the Senate that have raised this question, let me suggest, Mr. Chairman, that shippers of farm commodities will be affected by this bill, but we do not expect the effects to be great, nor to be experienced equally by all producers or regions of the country. Cost of shipment down the Mississippi system will increase about 3 to 9 cents per bushel for grain shipped to New Orleans. Those producers who now deliver grain directly from farm to barge with no intervening transportation costs—that is, those closest to the existing navigation system—will experience the greatest impact. By contrast, those farmers that ship corn from Western Iowa or wheat from the Dakotas will feel little of no impact relative to their current transportation costs, which are high, from the user charges.

Mr. Chairman, these are some of the initial observations that I wanted to make for the committee this morning, and I would be happy to take your questions and questions of other members of the committee.

Senator ABDNOR. Thank you very much, Mr. Stockman, for your statement.

Most of your statement, of course, was devoted to free transportation on the waterways. But I was just wondering maybe at the outset we could get you to give us your view on the role of the Federal Government in funding the other areas of water, the water projects like flood control, irrigation, drinking water, and recreation. Could you give us your views on that?

Mr. STOCKMAN. Mr. Chairman, let me just briefly state, historically, the Federal Government has had a major role. It has been vital to the economic development and expansion of the national economy. The future needs are great. People argue about the number, but it could be as high as $50 billion in future investment that has been identified at the present time. And I think my thought is that that activity must go forward, but we must find a better system for allocating those dollars that are available for establishing priorities for distinguishing between meritorious projects that have major national economic benefits versus those that have either minimal benefits or highly localized benefits. What I think we need to talk about much more than we have in the past is how we make those decisions, how we allocate the dollars rather than simply the gross tests of investment we are making. I think that is the phase that we are in at the present time, and for some period into the future.

Senator ABDNOR. I realize you do one thing at a time here. You talk about flood control, you talk about irrigation. Do you propose to have some new proposals on funding and the recapturing of costs.

Mr. STOCKMAN. Yes, Mr. Chairman, we probably have been somewhat negligent in the fact we have not developed a comprehensive water policy in the first six moths. However, there have been some more pressing and overriding priorities, namely, the economic calamity we are trying to resolve. We have made major headway. The Congress is on the verge of completing action on the first stage of that economic recovery program. Therefore, we think that in the next six months we will be able to broaden our efforts in order to address some of the major policy issues that this Administration and Congress must grapple with. Water policy is clearly one of them. And I would suggest today, Mr. Chairman, that we must address both sides of the equation, both the question of new starts, new authorizations, new construction, and also the question of reforming the procedures and calculations and allocation process by which that new construction is determined.

Senator ABDNOR. Thank you. We have been talking about user fees here. Let's suppose that the Congress fails to come up with legislation between now and the next year. Will the Administration's budget reflect any changes in the budget if we didn't come up immediately with some user fee legislation?

Mr. STOCKMAN. Well, Mr. Chairman, I would suggest I think in a general and tentative way today that if we cannot create these user fee mechanisms, these cost reimbursement mechanisms, I can't see how it would be possible to fund any new construction, any significant new projects, over the next several years. The money simply isn't there. The cupboard is bare. Unless we can develop a financing mechanism I think it is going to be very difficult to finance the new activities and investments that we need.

Senator ABDNOR. What would this mean in the 1983 budget, for instance, on maintenance, dredging on the waterways, would that be subject to any great changes?

Mr. STOCKMAN. Mr. Chairman, at the present time our budget for the next 5 years is based on the assumption that these user fees will be adopted, and it includes well over $2 billion—$2.4 billion—in that budget over the next 5 years. Now if these fees aren't adopted we are going to have to make 2.4 billion dollars' worth of savings elsewhere in order to keep the budget on track and have any hope of achieving a balanced budget in the middle of the decade. That being the case, water projects, as well as many others, would have to share that burden.

Senator ABDNOR. Referring specifically to water user fees, Public Law 95-502 required the Administration to report to Congress by September 30 of 1981 on the impacts of the waterway user fee. Don't you think it is logical for Congress to wait until a full review of this fee study is done before proceeding on any significant changes in national policy?

Mr. STOCKMAN. Yes, I do, Mr. Chairman.

Senator Abdnor. I am sure that is one of the things that is holding us all back here. I guess it isn't too long to September 30.

Mr. Stockman. Mr. Chairman, I would just suggest the final study will be available then, but preliminary studies and the large body of data and analysis that would be helpful to you and your staff in analyzing these proposals will be available at an earlier date. So we would like to work with you and cooperate as we try to delineate what these fee schedules will look like based on all this new information that will soon become available.

Senator Abdnor. Thank you. One last question. I have to mention agricultural shipments on the waterways. You really don't think that people, principally where I come from, the Dakotas, would experience some kind of impact from the user charge? You agree it is going to ultimately end up costing the shipper, right? We have had testimony mentioning 10 cents. You said 3 to 9 cents in your statement. I was reminded we had testimony as high as 75 cents. These are the things I like to make sure we know what we are talking about. I think even 10 cents could have an impact on world markets. We don't necessarily set the world markets anymore. We have not done very well in some countries with grain sales because some of our past actions, such as embargoes. And many foreign countries subsidize their agriculture. The European market has been a major factor in grain competition. They don't really get treated right in Japan. It may cause Japan to lower their duties because they are excessive in matters of grain shipments. But don't you think this would have an impact?

Mr. Stockman. Well, Mr. Chairman, I indicated there would be an effect. But I think we have to analyze that issue in its totality and over time.

First, my understanding of how the market works—and there is a great argument about this—is that basically the Chicago market is the center of commodity markets worldwide, and cost of purchase is determined by the Chicago price plus transportation from Chicago. Prices to the supplier, to the producer, are determined by the Chicago prices net of transportation costs to Chicago. Now the question that is raised continuously is where that fee for inland water transportation would fall. In the case of farm commodities there is a good chance it would reduce the net back to the farmer. So in the short run you may say this is a bad deal. However, if you look at it in terms of keeping our inland waterway system usable and navigable and making the long-term investments we need in order to minimize the cost of moving our farm production to the ocean ports and into international commerce, I believe we need this as a self-financing mechanism. Otherwise, I just can't see the availability of funds in the budget in order to keep the inland system, particularly the repair and maintenance and reconstruction of locks and dams, up to speed in terms of economic efficiency. So if you want a desirable economic outcome you are going to have to pay for it, and I think a few cents a bushel is not an excessive price to pay.

Senator Abdnor. Well, once we determine that figure that will help a lot. One other thing, Mr. Stockman, I am really happy to know who I should go after. I guess I will direct my attention to Chicago in the future.

Mr. STOCKMAN. Mr. Chairman, I would also point out, though, that in most regions of the country except those very close to the market or very close to the ocean ports there is at least a 25 to 30 cents per bushel net back for transportation already. So you are not talking about a major change in the transportation costs reflected in the price received by the producer or the farmer today.

Senator ABDNOR. Thank you. I better let some of the other gentlemen ask questions. Senator Moynihan.

Senator MOYNIHAN. Mr. Stockman, may I congratulate you on superb testimony and just ask you to confirm your judgment, as I hope it to be, that we don't just have a subject we are trying to fine tune, bring some efficiencies to, or some new methods of analysis. We have a policy in crisis here. We can't build any dams. We can't complete any waterways. We can't dredge any ports. The Government is not working. And it is a conflict of many purposes, of which one is just a huge response to the perception that this was a great barbecue to which only a few people were invited, and that as free goods these vast enterprises inevitably were wasteful. And you are trying to bring a sense of economic utility to an economic activity. Railroads are privately owned—or were—and but only the Federal Government, owing to a particular constitutional history, has been in this area and has never put in any economic criteria like you want to do.

Can I ask you just two things. I am for your legislation. I think it is time it was done, and I hope it just won't be one of the passing enthusiasms of the administration because in 6 months' time you will have your eye on some other new, great opportunity. I hope you will remember this committee because those are good ideas and good ideas disappear where water projects are concerned. They are effervescent, a warrant soon dissipated in the glare of harsh interests. You are going to have to be as tough about that as the budget.

Mr. STOCKMAN. Certainly, Mr. Moynihan.

Senator MOYNIHAN. I wanted to ask you just one thing, and this is hardly a question worth of your mettle. But coal exports, I would hope, are seen as a large opportunity for the American economy in so many ways. We have a huge potential here both to earn foreign exchange by selling things abroad and, to that measure, less dependence on oil from parts of the world that cannot have our best interests at heart and in any event are uncertain suppliers. As a strategic as well as an economic operation, we should be thinking of the export of coal to Japan and West Germany. Would you not agree?

Mr. STOCKMAN. I agree completely. And I would just observe that the reason for the concern about the deepwater ports and coal exports relates to the solution that we are proposing. Why is that happening? Why suddenly is there a boom, or potential boom, in coal exports? It is because of the international price mechanism. On a Btu basis coal is a bargain relative to oil for fuel and boiler fuel. The second question is, if the market is working at that end productively, can we get it working at what we might call the supply infrastructure level to make sure the market opportunities that have been generated can actually be utilized and not frustrated by lack of ports, and so forth? This is what we are trying to do with what is really a quasi-private mechanism to determine where to put that investment in the deep ports that will be needed to move large volumes of coal in the next decade.

Senator MOYNIHAN. The market would work better, as it were, or there would be a larger market if the price of transportation did not include lying offshore in Norfolk, for 25 days, while you wait to come along side and load. I mean we are imposing great cost on transportation by not having a proper port facility at this point. Don't you agree?

Mr. STOCKMAN. I agree with that. In terms of breaking the bottlenecks, creating an infrastructure, I would suggest to the committee that it work expeditiously to put this allocation mechanism into place so that the investments will occur much more rapidly than if you use the traditional process of allocation—2 to 1, 1 to 1, and not any to most. That isn't going to be a good solution for the country and I don't think it will solve the bottleneck problem.

Senator MOYNIHAN. And where port authorities, or whatever the instrument is, are prepared to finance the operation themselves, are you prepared to have the Secretary of the Army say, go ahead and do it?

Mr. STOCKMAN. Well, Senator, we do it for Saudi Arabia. I think we ought to do it for the Port of New York.

Senator MOYNIHAN. I mean if Saudi Arabia wants something they get it done. If we want it we have a hearing.

Thank you very much.

Senator ABDNOR. Thank you. Senator Stafford.

Senator STAFFORD. Thank you very much, Mr. Chairman.

I was interested in your responses to the questions on the matter of coal, Mr. Stockman. When I don't have to go to Vermont or some other part of the country on weekends, I used to repair to the Chesapeake Bay to make an ecological examination of the water over there from a boat I own. But more recently I have taken that opportunity to see what the coal situation was. While I agree that we need to build deeper ports than we already have, and while I know that my dear friend Senator Randolph is very interested in selling coal, from my personal observation there were, 2 weeks ago, 22 bulk carriers awaiting to load coal at Baltimore without an opportunity to do so. Some have been there a week or two, at $20,000 per ship per day. As of last weekend, there were 24 bulk carriers waiting to load. These are big ships and they draw about 38 to 40 feet of water at normal load. They are about 600-feet long and carry about 60,000 tons of coal when loaded.

So right now the bottleneck on selling coal abroad really is inadequacy of the railroads to get coal to coal ports and then the wharfing facilities to load ships when they get there. We could sell, by my poor mathematics, another 3 million tons of coal on the high seas if the wharfing and railroad facilities were adequate to get the coal to the ships to take it abroad, because there are probably a third more ships waiting to load in Norfolk and Hampton Roads right now than there are up off Baltimore.

So I agree that we need deeper ports because coal carriers, like oil carriers, are going to get bigger and deeper and maybe approach 100,000 or 200,000 tons in their capacity in the future. But improving the deepwater harbors right now in some instances won't alleviate the problem we face with railroad capacity and wharfing capacity. Would you agree with that?

Mr. STOCKMAN. Yes, I would agree with that. There is more than one problem contributing to the bottleneck. Although I would observe in recent months there has been enormous increase in the announced plans for investment in loading facilities, wharfing facilities, by the railroads themselves, because obviously they see this as a very attractive long-term market.

Senator STAFFORD. I only mention this because it is a multifaceted problem, and just digging deeper channels won't help unless we also have the railroad capacity and port wharfing capacity to take care of the loads.

In your statement you referred to the recovery of operation and maintenance costs. This is a relatively minor matter, but would maintenance costs include the cost of maintaining the Coast Guard buoy system, the lighting system, the navigation markers, and so on?

Mr. STOCKMAN. I believe that as we have defined it those costs wouldn't be included, but I would have to check and supply it for the record.

Senator STAFFORD. Could you do that for us.

[The information referred to follows:]

The Administration has proposed separate legislation to initiate user charges for many of the services provided by the Coast Guard. The Coast Guard fees would be charged for a wide variety of services, such as administering license examinations for merchant seamen, the inspection of vessel hulls and systems to assure their safety and integrity, and general annual fees for services to all boat owners, such as maintaining the navigation systems in our channels. Costs of Coast Guard servcies attributable to national defense, law enforcement, and other services not properly allocable to maritime users have been excluded from the base used to calculate the Coast Guard fees. The Administration has been careful to avoid any duplicate collection among these different fees structures for Coast Guard and Corps of Engineers work. The Administration is now examining alternative methods of collection in response to Congressional concerns raised earlier this year.

Senator STAFFORD. Let me ask you this question, and this is not intended to be critical in any way. But it occurs to me that if we relieve the taxpayer of the cost of digging deeper channels and operating our inland waterways, are we not, and maybe we should be, passing that cost on ultimately to the consumers of the goods that are being transported?

Mr. STOCKMAN. Well, ultimately it would be borne by the economy either in prices paid by consumers or prices received by shippers. And it is difficult to say where that will fall. But it wouldn't disappear, I agree. But it is a better way to allocate the cost than to put it in the Federal budget and charge taxpayers all around the country for a service they are not receiving.

Senator STAFFORD. Thank you very much.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Senator Stafford. Senator Randolph.

Senator RANDOLPH. Mr. Stockman, the administration certainly is thinking, and you are pondering, as to how failure to dredge certain ports to 55 feet would affect the potential coal markets in Europe and Japan. Is that true?

Mr. STOCKMAN. That is correct, Senator.

Senator RANDOLPH. I think that is a very important consideration that I know is before you and that you are addressing. The comment of the able chairman of our committee, Mr. Stafford, about the Baltimore situation causes me to indicate that there are three new coal-handling facilities at Baltimore, that are currently in the permit stage. There is a feeling sometime that nothing is being done. There are many fronts on which private sectors, including coal operators, are moving. Those permits are now before the U.S. Corps of Engineers. We are attempting not to have them make determinations more quickly than they should, but that there is a need for action in this area. Perhaps you might be helpful in that connection, because I believe that we are at the point where decisions cannot be hurried, and should not, but they can, with a little vigor from certain sources, cause the Corps to act.

When we think of Baltimore and of Norfolk, and also New Orleans, we do realize that there is coal that is being shipped in very large quantities today to foreign markets. In the past year some 70 million tons of coal has moved out of the United States, having been mined in several of our States. Of this figure, approximately 30 percent of that coal has come from the State of West Virginia. We are very conscious of the problems that not only are inherent in the need for deeper dredging and in some instances, the widening of those facilities for certain types of larger ships, but we are conscious also, in a State like West Virginia, of the inadequacy of our rail system. Not, Mr. Stockman, that the rails are not there; but we never could get enough Members of Congress to realize that those roadbeds of the railroad systems of this country must be strenghtened. And so years come and go and the problem, of course, still remains.

There is a considerable amount, Mr. Stockman, as you and others of the administration know, of movement of coal to the ports not only by rail but also by inland waterways. This is especially true in the New Orleans area.

There is the double job that the members of this committee well understand as undertake the so-called port improvement very necessary for these shipments overseas. We must also realize that here within Pennsylvania or West Virginia or Ohio and many other States the inland waterways must be given attention from the standpoint of improved facilities, including docks. I mention now in West Virginia the Monongahela, the Kanawha and, of course, in greater degree the Ohio River. So these facets of transportation do overlap. They call for a continuity of effort that must be placed at this particular time when you come to discuss these matters with us.

I am not a carping critic of the administration. I never have been of any Republican administration in which I have served as a Democrat. And the record so proves. Currently this administration is going to spend massive sums of energy research and development money on nuclear technology—fusion, breeder reactors—while cutting back the direct utilization of coal, including synthetic coal programs. I don't want to be a prophet and I don't pose as one. But in the forties I said that we would rely for our petroleum from unstable and probably unfriendly countries, and that is exactly what took place. With World War II concluding, the U-boats moving away from the east coast, the American people—and we are wont to do that—said, let's go back to doing business as usual. So the efforts made then on synthetic fuels, even moneys, Mr. Stockman, in the amount of $3 million, these moneys were returned to the Federal Treasury.

It is not a time for me to preach to those who are on this committee or at this hearing, but we act so often after the fact, not before. I guess that is one of the problems inherent; it may be a valuable instrumentality with which a democratic form of government works.

I ask you, Mr. Stockman, what sense does it make, through the testimony that you are giving, to underscore the importance of developing coal port facilities for coal exports while cutting off coal conversion, which is something that is immediate, when we think of the long range programs that we are discussing? Also, research funds that offer short-term solutions to energy problems. Instead we spend major portions of the energy budget on programs, I speak very carefully, that if they will work at all would not be commercially viable until the middle of the next century. Am I talking about something that you believe or are you thinking I am wrong?

Mr. **Stockman**. Senator, I think you have made a very instructive and persuasive analysis. I guess my answer would be we have to take first things first—and I believe in coal as much as you do. But my analysis tells me the way we are going to increase coal production and coal use rapidly in the next 4, 5, or 8 years is by using it as boiler fuel to generate electricity and generate industrial steam. That is where the export market is coming from. And if we could get the Clean Air Act straightened out in this country and reduce the complexities and delays in it so people knew where we stood, we would increase the amount of coal used for electrical generation and boiler fuel here. So I would believe that our best avenue would be to invest some time and effort into regulatory reform, and we could do more to get coal into the systems and oil displaced than we could by investing multibillion dollar amounts of taxpayers' money in what still may be uneconomic coal liquefaction plants.

We need to proceed with synthetic fuel technologies broadly conceived. But as I look at the economics of it, Senator, it appears to me shale in the middle term, near term, will be a more promising, more efficient, less costly form of conversion to liquid than will be coal. So that is where we would hope to see the direction move—shale for liquids, coal for boiler fuel. And we have the technology to do that already. It is just a matter of getting the regulatory program work reformed and streamlined.

Senator **Randolph**. I agree with you that the importance of shale is something that has not been overlooked except that it is just a part of the whole program. But what I am speaking of is that we set aside not only the opportunities to develop shale oil in Wyoming or Colorado but we also set aside the other programs like coal conversion. They both fit together and they were in the 1944 bill that became law through the signature of a Democratic President. I can remember it. A beautiful time.

I want to ask this further question. Will your recommendations, Mr. Stockman, encourage stable relations between consumers and producers through long-term coal contracts and insure the economic, fiscal, and improved investment plan which will be inducive to coal development?

Mr. STOCKMAN. Senator, I think the answer to that would be that investment begats investment, and when investors around the world see we are taking efforts to improve our ports, to deepen the channels, to invest as the railroads and coal companies are now doing in port facilities and loading facilities, then I think that we are going to see an increase in demand for U.S. coal, and that, of course, will feed through the economy with another wave of favorable effects. So I think we have to start the process, and this is one important step that the Congress and Senate can take in order to gain that favorable chain of activity.

Senator RANDOLPH. Well, you comment today as an advocate of coal and oil shale as alternatives to petroleum.

Mr. STOCKMAN. Those and other things, including conservation. We are using 3 million barrels a day less oil than in 1977. Oil imports have been cut in half since the spring of 1977. That indicates we are making progress. There is more to do, but we are making progress because the marketplace is working, as many of us said that it would.

Senator RANDOLPH. In alternate fuel we include forestry and agricultural products as a substitute of petroleum. You and I realize it is a broad field in the country in which we have the opportunity to work.

I have a feeling that you and I are both advocates of the coal resources of the United States; is that right?

Mr. STOCKMAN. That is correct, Senator.

Senator RANDOLPH. And in the advocacy which I have had I have believed that there are certain principles that we should follow if we can and intend to use more coal. Basically, these require minimizing the use of oil in electric generation and encouraging conversion to new coal-fired powerplants. Do you agree with that, sir?

Mr. STOCKMAN. Yes, I do.

Senator RANDOLPH. It requires an investment plan. It has to be favorable, and you recognize it and have so indicated. It will require reduced uncertainties on the previous national coal policy which have been before us with much talk but, very frankly, not too much action. And I admit that. I have been discouraged so many, many times. It requires a high priority, therefore, with research and development, in addition to the rapid commercialization of advanced synthetic coal and shale technology. It requires attention to be given to environmental concerns.

You have mentioned very quickly here today—and this is not a Clean Air Act discussion—but I would like to mention, Mr. Chairman, the poll by Mr. Harris and his associates which indicates that 85 percent of the American people are in favor of what has been generally done in the Clean Air Act. That doesn't mean that there are not changes which should be made since the original act and its refinement through this committee. So the Clean Air Act does have support in this country.

Finally, the administration has not acted as I think perhaps it might have to encourage the principles that I have spoken of. I think that, in fact, negative budget recommendations could retard both research and development in direct coal combustion and in synthetic fuels. Now in saying that I am very conscious of the fact that you are giving thought to these matters, as are others. I ask this final question. Does the Reagan administration, in your opinion, support coal as a primary national resource that should be used to assure domestic energy independence, or do you support only these coal export programs that we are discussing here today?

Mr. STOCKMAN. Mr. Chairman, as I indicated before, we support comprehensive coal production use, both for exports and domestically. And I would like to suggest if we can solve some of our regulatory programs both on the production side and use side, and if we recognize that coal is becoming a better and better bargain per Btu, per pound of steam generated, per watt of electricity generated than oil with each passing day because of that price spread, that those two facts alone could generate the most favorable procoal policy, the largest increase in coal production, and more employment than any other option we have available. The market is working to restore king coal, and what we have to do is get the impediments out of the way and allow that natural process of recovery and revival to proceed because it is the most important and most extensive domestic energy resource we have, and whether or not we can achieve the objectives outlined in the next 20 years I believe could have a major impact on where we come out at the end of this century.

Senator RANDOLPH. You used the term "king coal." Kings have been toppled so often from their thrones that I am not sure that is the best word.

Mr. STOCKMAN. Sometimes they return though, Senator.

Senator RANDOLPH. In another dress. But I do think you are saying, and what I believe you actually feel, is that it is the administration's position to give close attention and act as expeditiously as possible to bring forth the use of coal and other alternate fuels, plus conservation, in an effort to meet the problems that will continue. There will not be this glut of petroleum that we read of. Change it will, and we know not when. It has happened before. But your testimony today is very encouraging to me. I thank you very much.

Senator ABDNOR. Thank you. Senator Baucus.

Senator BAUCUS. Mr. Stockman, as you know, some parts of the country aren't blessed with competing modes of transportation. My part of the country is one—Montana. We have a lot of difficulty in that there is virtually only one major transportation system, and that is rail right now. The agriculture producers, particularly grain producers, do sometimes utilize truck/barge when they can. The trouble is Burlington Northern generally reduces freight rates as much as they can to push out the truck/barge traffic, and when that happens they raise the rates. Montana shippers are virtually captive shippers in that regard. Nevertheless, there are times when grain shippers can utilize the truck/barge system as opposed to all rail system.

Obviously if this bill goes through the barge rates are going to increase, and that is going to make it more difficult for Montana grain shippers to ship. That will allow BN, the only railroad, to be in an even stronger competitive position.

As you know, the BN is, in part, a land grant railroad with tremendous financial resources. Various studies show BN in the past has been able to cover its fixed cost and maintain an A bond rating because of income from its resources apart from the rail. We also have great subsidies in highway transportation.

My question is, If the bill passes, how are we going to handle these distortions in subsidies that will continue to exist? I understand you want to eventually erase them, but that is going to take some time. What do we do in the meantime?

Mr. STOCKMAN. Senator, I think my initial answer is, If you want to get a level playing field then you have to start, and I think that we have made a start on a variety of fronts designed to reduce the distortions in the subsidies in the entire transportation system.

Senator BAUCUS. What are you doing on, say, highways and rail to the degree it is subsidized by land grant income?

Mr. STOCKMAN. Well, I am not sure what you mean by being subsidized by land grant income. Are you talking about a cost from the 19th century you are projecting forward to 1981, or precisely what do you mean by it is land grant income?

Senator BAUCUS. As you know, some railroads, say the Northern Pacific, was moved west. Congress gave the Northern Pacific alternate sections along the route, and that railroad now gets tremendous income from timber resources, from coal, an:d other minerals. That income now, as I said, at least as it says in a letter from the ICC I recently received, covers BN's fixed cost and also enables BN to have an A bond rating to finance other things. That is a subsidy Uncle Sam gave in years past to the railroad. We do now subsidize to a large degree truck traffic with the Interstate Highway System. My question is, How are we going to handle those subsidies when we address theoretically the barge subsidy?

Mr. STOCKMAN. Senator, we have to take—because I am not sure what argument you are making. It sounds to me like you are making two. It sounds to me like you are arguing if we put this fee through the railroads would undermine other modes of traffic by lowering their rates and by cross subsidies from income from nonrail properties. But, on the other hand, the suggestion was made that this is a very lucrative business and that excessive profits are being made. I am not sure that both could be the case at the same time. We would give additional consideration to that. But I think you cannot make a national policy on the basis of what might be a fairly unique circumstance, number one; and, second, to the extent that the income from land grant property is used to offset costs—and I am not sure whether that is the case or not—the State of Montana, for instance, has some considerable ability to gain a return from that through your coal severance tax and through other fees that are levied on the production of natural resources. So it seems to me it is not all a one-way street; it is not all a disadvantage to the State of Montana. Nevertheless, we have to have a policy that has nationwide significance and impact.

If you would be willing to provide me with some further information as to what you think the problem is in that unique circumstance, we would be happy to get answers back to you.

Senator BAUCUS. That is what I am trying to do here, figure out some way to handle the various effects of a limited subsidy on different parts of the country. The country is not uniform. Whenever we establish uniform policy there is going to be some dislocations. Frankly, I am trying to achieve your goal of eliminating some of these subsidies, but also being sympathetic and understanding of the problems in some parts of the country. One is in rural areas where by increasing barge rates, that is, get rid of the subsidy, in effect you are going to make it even more difficult for Montana shippers to ship their products because the result will be higher freight rates, even more than they are today. And I will explore that with you.

The trouble too is we don't live in a perfect world. The United States is not the only country in the world. Other countries subsidize their own industries to one degree or another. Let's take grain. Right now, as I am sure you know, when an American ships grain overseas, particularly to Japan—and Japan is a big purchaser of grain—the Japanese Government enacts very high tariffs on that grain when it comes to Japan. So, as a result, grain in Japan is twice the retail price as in the States. When we in Montana ship grain and we face higher barge and other rates when subsidies are eliminated, we are at a competitive disadvantage in shipping our grain overseas. So I strongly encourage while we reduce some of the subsidies we have in our present economy and make the economy more competitive, we also encourage other countries to reduce their subsidies so in fact in international trade we do deal on a more competitive basis, so free trade is in fact free and fair trade.

It is not a one-way street. I think as we go through this bill and try to come up with some solution the administration is going to have to address some of the other worldwide dislocations that will be even greater if this bill goes into effect.

Do you have any studies which will show how much grain freight rates will increase if this bill goes through, particularly for the Pacific Northwest?

Mr. STOCKMAN. It depends on the origination and destination of market. But we have indicated our preliminary conclusion is somewhere in the range of 3 to 9 cents a bushel. But we will have more definitive calculations after the DOT studies are delivered shortly.

Senator BAUCUS. It will help me if you can have definitive studies because that will have a large effect on how I look at the bill.

Mr. STOCKMAN. Senator, if I could say in response to your previous question, it is true that each problem relates to the next problem. Everything relates to everything. But I don't believe that we are ever going to solve every problem if we try to solve all the problems from Japanese farm policy to the question of how we pay for and invest in our inland water facilities all in one fell swoop. We are working on all those, and we agree with the general philosophy you have outlined. But I would hope that the imperfections that may lie in the international grain market or some of the built-in inequities in a whole variety of domestic what you might call resource allocation policies from one region to another do not become an all-seasons excuse for not trying to dismantle this accumulated problem one step at a time.

Senator BAUCUS. I agree. Do you know to what degree other countries subsidize their port construction?

Mr. **Stockman**. I couldn't give you an answer to that here. We will try provide something for the record. I imagine in their policies in that area, like their policies in the industrial or agricultural area, you probably have a great deal of subsidization. But that doesn't mean that it necessarily disadvantages the United States. In the long run, countries cannot make themselves wealthier by subsidizing inefficient sectors. They simply make the whole economy unproductive, and we shouldn't emulate them.

[Information supplied for the record follows:]

Financing of Deep-Draft Channels In Selected Foreign Countries

Country and construction costs	*Maintenance cost*
Canada—Central Govt. lends money to ports without expecting capital or interest to be paid.	N/A[1]
Sweden—Central Govt. provides grants to ports for port development.	Do.
Denmark—100 percent Central Govt	100 percent Port Authority.
Netherlands: "Havenbedrijven"—66⅔ percent Central Govt., 33⅓ percent "Havenbedrijf" (Rotterdam) or Municipality (Amsterdam).	Do.
"Havenschappen"—100 percent Central Govt.	100 percent Central Government.
France: Autonomous Ports—80 percent Central Govt., 20 percent Port Authority.	Do.
Non-Autonomous Ports—30-50 percent Central Govt., Balance Chamber of Commerce.	Do.
United Kingdom—100 percent Port Authority.	100 percent Port Authority.
Italy: Autonomous Ports—Central Govt., plus Port Authority in varying proportions.	Varies, but generally the Central Govt. pays.
State Ports—80 percent Central Govt., 20 percent Communes, plus Provinces.	100 percent Central Government.
Japan: Local Ports—40 percent Central Govt., 60 percent Port Mgt. Board.	N/A.
Refuge Ports—75 percent Central Govt., 25 percent Port Mgt. Board.	Do.
Belgium—100 percent National Govt	100 percent National Govt.
Germany—100 percent Federal Govt., Outside Port.	100 percent Federal Govt., Outside Port.
Do—100 percent Relevant Territorial Authority—within the Port.	100 percent Relevant Territorial Authority—within the Port.
Ireland—100 percent Port Authority	100 percent Port Authority.

[1] Data Not Available.

Source: Maritime Administration, Office of Port and Intermodal Development, July 23, 1981.

Senator **Baucus**. Sometimes the short run is important, because as one economist said, in the long run we are all dead. Sometimes the short run is very important because if you pursue only the long run we are never there.

Mr. **Stockman**. Sometimes a series of short runs lead to a disasterous long run. I think we have had some experience with that in economic policy in a decade and a half of short runs.

Senator **Baucus**. My question is advice, when you develop these policies you also address some of the other dislocations that are caused by pushing the balloon in one point when it pops up sometimes elsewhere.

Thank you.

Senator ABDNOR. What rail subsidies will continue after the reconciliation bill? Will there be anything?

Mr. STOCKMAN. Mr. Chairman, if the reconciliation bill goes through, some of the inequities the Senator from Montana was talking about will be reduced. We will get the United States out of the business of running Conrail, that $4 or $5 billion in cost will be avoided in the next 4 or 5 years. We will hopefully reduce and eliminate the local branch line subsidy program because against that is a subsidy that distorts the market. In the area of air traffic, we are asking for ability to fund the air traffic control system out of user revenues than than general revenues. We have asked the Congress not to levy taxes to the taxpayers of Montana to pay the fare box cost in New York City. Again, part of the effort to reduce these irrational subsidies that simply shift money from one part of the country to another, with great inequity and loss of economic efficiency. There is a lot or accumulated distortion to address, but I think we have fairly addressed that in the major portion of the bill.

Senator ABDNOR. One subsidy, at least some people, and particularly the waterway industry sees it as a subsidy, is the railroad retirement. How do you feel about that? Do you think of that as a subsidy?

Mr. STOCKMAN. Yes, I think that is another subsidy we have proposed to address and eliminate. The railroad retirement system today is subsidized by the Social Security Fund, and therefore the general taxpayer, and that fund is very rapidly heading toward bankruptcy. Unfortunately, the reconciliation bills do not address it effectively, in my judgment, and we are going to face a deadline in only a few months down the road where major changes in that program will have to be made. As Congress addresses it, I hope we can do it with a view of requiring the railroad industry to make the adjustments, some on the tax side, some on the benefit side. But the major goal will be to keep the cost of that system internal to the railroad industry and not simply to shift to the general taxpayer as we are in so many other of the efforts.

Senator ABDNOR. Thank you. Senator Gorton.

Senator GORTON. Mr. Stockman, I am sorry I didn't get an opportunity to hear your statement, but I have had a chance to read it since I arrived at the meeting. As is the case with all of your other presentations, it is as hard, as sharp, and as brilliant as a diamond. It clearly requires us to think and to rethink very carefully some of our own premises, many of which have been unstated and unthought about for many years. And it, of course, has the virtue of being highly internally consistent.

As you know, I suspect the chairman has suggested to you a bill which doesn't go as far as the proposals which you have made and which treats, under a separate philosophy, the normal operation and maintenance dredging of the Corps of Engineers and improvements and new construction.

I have as a respresentative of people in a fairly complex State some of the same concerns which motivated Senator Baucus' questions. Though I have a situation about which I would like to ask you, because when it gets right down to it ports in the State of Washington would have some conflicting and differing points of view toward the impact of your suggestion. I suspect if we were to adopt your suggestions in toto it would be considerably to the advantage of the Port of Seattle and other ports on Puget Sound, particularly in so far as those ports are competitive with ports on the Columbia River, the ports which are the ports for Senator Baucus' wheat growers in his State and, for that matter, in mine.

Even assuming the theoretical validity of your approach, that there should be a 100 percent cost recovery both for new construction and for operations and maintenance, would not an immediate shift to that system, particularly in connection with operation and maintenance, which simply presumably is retaining the status quo, be likely to have a seriously debilitating effect on ports like the Port of Portland and other ports on the Columbia River as compared with other ports like those on Puget Sound for the type of commodities with which Senator Baucus is concerned? And second, if that is true, and even though that simply would be the efficiencies of the market working their way out, is it fair in the broadest sense to require such a shift, in an abrupt fashion, when there are very significant capital investments which have already been made and been in use for a considerable period of time based on our history, based on the status quo that exists now?

Mr. STOCKMAN. You have raised some good questions, Senator. Let me respond to the last part first because it is one of the most difficult issues you face in dealing with this question of subsidies that need to be reduced and efficiencies that need to be achieved.

Subsidies tend to get capitalized into the structure of economies and property owners and producers who benefit from them. And if you look at farm programs, or any other subsidy, for example, tobacco allotment is worth a considerable amount per acre. But if you argue that the historic practice of that subsidy has created that capital value and therefore that capital can't be disturbed, diminished, or eliminated, you have locked yourself into a logical box.

Senator GORTON. Those words differ from each other—disturbed, diminished, or eliminated. There is quite a difference. And I suppose one could disturb or diminish a subsidy or do it over a period of time which would create less dislocation.

Mr. STOCKMAN. That leads me to the second point. We felt on O. & M. the cost involved relative to the value of commodities shipped is so minimal that the degree of disturbance or minimization or erosion of capital values you talk about would not be significant or beyond the tolerable level. We have looked at the numbers, and I realize there is a particular problem in Portland that in the case of Puget Sound or Seattle you might be looking at O. & M. at 1 cent per ton, and that is such a fraction it hardly records; that in Portland it might be 30 cents. But still you are talking about commodities that have a value many, many times greater than that—$250 on the average lower for bulk commodities, higher for finished commodities. I am not sure what the tonnage mix is in Portland. But if you could show me it is more than 1 percent or 2 percent of the sale value of commodities that depart from the port I would be surprised. I don't think it is the case and I can't believe a fraction of a percent is going to cause the great disturbance, dislocation that you mentioned.

Senator **Gorton**. You may very well be right. I just simply wonder whether or not you can help us in any more precise fashion than simply the thought that there would not be significant dislocation by giving us some kind of estimate as to what the dislocation would be away from Columbia River ports.

Mr. **Stockman**. Senator, if I could support further——

Senator **Gorton**. I would like to ask the question a little bit further, and I am going back to Senator Baucus' questions, what the additional costs would be for those who supply the commodities in the first place, the wheatgrowers of Montana and Idaho and of eastern Washington, would those cost considerations be likely to shift where the pattern of their own transportation, the ports from which they ship their wheat? Would they increase the cost of operations to them to a point at which under present circumstances some of their operation might become unprofitable?

Mr. **Stockman**. We will try to provide more for the record. But I would like to distinguish here between construction and development costs where there would be serious impacts, and I have said that in my testimony, between ports and between regions and O. & M. where we——

[Information supplied for the record follows:]

In view of the negligible impact of the proposed deep draft user charges on some of the alternative port destinations of grain shipments from Montana, Idaho, and eastern Washington, no significant additional costs ae expected for most growers in these areas due to the deep draft proposal. There may, of course, be a shift of some movements from Portland to Seattle.

The preliminary indications from the Section 205 Study of the effect of inland waterway user charges on the Columbia and Missouri River systems are as follows:

Traffic will continue to increase on the Columbia—about 27 percent between 1977 and 1990 with the fee and 48 percent without the fee. The fee will decrease the area that sends goods to the river but increasing economic activity in the remaining area will expand the use of the Columbia.

Traffic will decrease 22 percent with the fee on the Missouri rather than increase 14 percent without the fee between 1977 and 1990. This is because the users of the Missouri have very good transportation alternatives—including the Burlington Northern Railroad. The use of the Missouri is sensitive to increases in user fees because it can only handle small tows in a very winding riverbed—this is a very high-cost-river with or without user fees.

Senator **Gorton**. I am speaking only to O. & M.

Mr. **Stockman**. In the case of O. & M., our figures indicate if you took the dredging down in Portland Harbor in 1978, it would amount to about 35 cents a ton. If you can give us some indication—and we will find it—if you can give us some indication of the average value of traffic moving out, then you could make a calculation that would indicate what kind of impact you are talking about. But I can't believe it is a very large fraction.

[Information supplied for the record follows:]

In 1980, the average value of international traffic per ton transiting the Port of Portland was $305.

Senator **Gorton**. One other question which is triggered by a parochial incident but which obviously could conceivably apply in other sets of circumstances. Under your proposals, in the event of a natural disaster of immense magnitude, obviously I am referring to the eruption of Mount St. Helens, where literally millions of tons of material was put into shipping channels overnight, the removal of which will require a number of years, would you expect the local entities to be responsible for recoving the cost of restoring a channel under your O&M proposals to its previous condition? In other words, under your theory, in May of last year, should the Port of Portland and Vancouver have borne the entire responsibility for reopening navigation on the Columbia River?

Mr. STOCKMAN. I think you probably would want to make a distinction in the case of a rare and major catastrophe that isn't part of the normal cycle of siltation and development of other impediments to navigation. So I don't think that we would apply those unique and one-time costs to our concept of user recovery.

Senator GORTON. Thank you, Mr. Stockman.

Thank you, Mr. Chairman.

Senator ABDNOR. Talking about fees and collections and all that goes with it, I remember one part of your testimony where you say, "We now have the first quarter's results on initial collections from the fuel tax, $5 million, less than half of the amount previously estimated." What do you attribute that to, collecting only half of what we assumed we would receive? Is that because of the tax or is it because of less shipments or did we just completely miss the amount?

Mr. STOCKMAN. It is probably two things. One, the original estimates could have been not accurate or adequate in terms of the projection basis that they used. Second, you are dealing with a very small tax and a very small amount of money.

Senator ABDNOR. Just guessing a figure like that, we ought to have more data before we assume what we are going to do today is going to be 15 percent of the total overall expenditure or whether this may be off just for that quarter.

Mr. STOCKMAN. That is true. It is not good to extrapolate by quarters. It was more for illustration.

Senator ABDNOR. You also mentioned, talking about regulations, one of the biggest problems with harbor development is that it does take years to get all the necessary Federal, State, and local permits in order. Do you believe there would be value in legislation that would consolidate our permitting process and accelerating other aspects of the permits in various Federal reviews? Could you give any thought to kind of fast track this thing to revising regulations.

Mr. STOCKMAN. Yes, Senator, I think that that might well be a desirable part either of this legislation or your overall water policy legislation that I know you are anticipating. I think the Senator from New York is right when he said that water policy broadly conceived in this country is seriously obstructed by the inability to finance and inability to permit. And we are not going to solve the entire problem until we address both. This proposal is designed to remove the first impediment—provide an ability to finance. But I think your proposal addressed to the question of licensing, permits, the multiplicity of agencies, the delays, the litigation is equally important and needs to be addressed, and we would be happy to cooperate with you in the committee in addressing those issues.

Senator ABDNOR. That is great.

Senator Warner is with us today, and I know he has a lot of interest in this.

Senator WARNER. I thank you, Mr. Chairman, and I also thank the chairman of the full committee, Senator Stafford, and the ranking minority, Senator Randolph, for the courtesy shown me not only today but for the past eight months, as we have been working together to achieve a piece of legislation.

Mr. Stockman, a group of us have put in a bill a short time ago. I authored it, and there are some 18 cosponsors. We have given a lot of careful thought to this subject. Let me address some differences between this group's bill and what you have stated this morning.

First, relative to the subject of the allocation of the cost, we are of the opinion that no less than 60 percent should be for construction in terms of the Federal subsidy, and for operation and maintenance a Federal contribution set at 75 percent. Now these figures were carefully thought out, and the departure from the administration's position of a hundred percent was predicated on concepts like these ports, particularly Hampton Roads, are utilized by the United States Navy and other national security interest. Second, there is a ripple effect in terms of the benefit to the overall economy of the United States for the movement of cargoes ranging from grain to coal and to other cargoes.

Now would you reconsider on any basis the scaling down of that hundred percent to figures approximately those that are contained in S. 1389, the National Port and Navigation Improvement Act of 1981?

Mr. STOCKMAN. Senator, as I understand your bill, I don't believe we are that far apart. It may be more a matter of accounting that divides than concept. Our concept was that U.S. governmental users of the port facilities and the cost attributable to them, whether it is the Navy or Coast Guard or a variety of other governmental users, would be deducted from the dredging costs or the construction cost before you would impose a fee to recovery those costs. So you have taken yours off the percentage recovery, we have taken ours off the definition of what costs are recoverable. So I think we are at the same point.

Senator WARNER. So we can reach an accommodation on that?

Mr. STOCKMAN. I think on that there are possibly technical differences between the experts you and I rely on as to what is a U.S. Government cost and how is it allocated, and what is the commercial cost and how is that measured and calculated. It seems to me we are advocating the same thing, and that is a technical matter that can be readily resolved.

On the national benefit, there I would have some reluctance. Of course, almost any kind of economic activity does have as a secondary matter a national economic benefit. Whenever you add to the economy you are making everybody better off as well as yourself. I think in this instance there is not a strong rational or conceptual justification that has been brought to my attention that would say we should have less than full recovery because there is a national benefit in higher coal exports, or more workers employed, and so forth. If we could somehow focus this on commercial cost and commercial benefits and try to create a mechanism by which those costs could be allocated and those projects could go forward, it seems to me there is where we ought to be shooting.

Senator WARNER. Again, you are of an open mind if we can show a direct correlation to national benefit?

Mr. STOCKMAN. A direct correlation? I am of an open mind where we can show a direct correlation to governmentally imposed cost, in other words, cost that ought to be charged to governmental users, the naval base or facility rather than the commercial user of any harbor or navigation area.

Senator WARNER. In your research was it brought to your attention that there are some 30 ports worldwide now under construction to accommodate vessels over a 100,000 tons?

Mr. STOCKMAN. I wasn't aware of the number, but of the trend. And clearly that is why we must have a program like this if we are to remain competitive.

Senator WARNER. I also just have one brief article referring to a port in France. It states as follows: "Autonomous ports like the one in Marseilles receive 80 percent subsidy for the dredging work, 60 percent subsidy for building docks and pay for the rest of any development projects." So it seems to me we are certainly at cross-currents with what other governments in the world are doing if we adhere strictly to this type of formula of a 100 percent.

Mr. STOCKMAN. Well, it may be true in some very limited situations. But I would note the British Government put $2 billion into British steel last year and there is a question whether that helps Britain or hurts Britain. I would note the French and British Governments pay most of the cost of the flight of an SST across the Atlantic, and I am not sure whether that adds to their national output and income and wealth. We have to be careful with the idea because another country is foolish enough to subsidize inefficient operations, or distorts their economy with unjustified subsidies, that we have to counter blow for blow, case for case, kind for kind. In some cases it is unavoidable, like on export financing in limited areas. Generally, I think we should try to avoid it because it does not really help your economy, only very narrow sectors.

Senator WARNER. Basically my bill subscribed to the administration's new policy of sort of sharing of cost. It is just a question of how we break down these fractions. What concerns me, however, is that America does have a golden opportunity at this time to seize this market not only in coal but in grain and other commodities. And unless we proceed expeditiously we may well lose it.

Which brings me to the next point. The Corps of Engineers advises currently it would take 8 years to complete the port in the Norfolk and Hampton Roads area. For that reason, in my bill—I will call it our bill—we provided for some fast tracking measures, expediting measure. I note the absence of any in your proposal. Do you subscribe to the need for some fast tracking provisions?

Mr. STOCKMAN. I would think so, Senator, and that is something we would be happy to talk to you about, or the committee, as you proceed through the hearing stage, to the markup stage and begin to look at the details.

Senator WARNER. I thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Senator.

Just to add to the comment you are talking about, the Dutch ports and how they operate. I think we were told that locally they pay for all new construction. Feds pay for O. & M. on the ports. I think user fees pay the entire local share of the cost there.

Does anyone else have any other questions?

Senator RANDOLPH. No, I only commend you again, Mr. Stockman, for the depth of the understanding and the knowledge that you bring to us. I would suggest, Mr. Chairman, as the subcommittee and all of us who are intensely interested, that, Mr. Stockman, you might look with favor if we feel it is helpful to have you come back in a couple, 3 months, if your schedule would permit to see what we have been doing and just where we are. I think the matter is an imperative one for the administration and for those of us who are working on the Hill.

Senator ABDNOR. Mr. Stockman, I know there may be a number of written questions submitted to you. Senator Burdick couldn't remain, and possibly Senator Murkowski will have questions and maybe the committee itself. We may be sending you some questions in writing.

Let me ask you one last one. Are port authorities or local governments capable of raising the local share of projects' costs and either recovering their cost from local revenues or port user fees?

Mr. STOCKMAN. Well, I would try to answer that by separating out the O. & M. from the construction issue. In some cases local port authorities or governments might not have the capacity, nor the desire, to bond themselves in order to finance the cost of the development project. But in our legislation, because of that consideration, we permit an option whereby the Federal Government would finance it, then the recovery would occur over 50 years. I think on that basis almost any port facility could afford that very slow, long-term cost recovery if it had a viable project and it made a thorough assessment of cost and benefits over time.

Now on O. & M., because those costs are very low per project relative to the volume of traffic moved or value of tonnage moved, I don't think any port would have a serious problem with a user fee that would recover the cost that it would owe the Federal Government for maintenance and dredging work.

Senator ABDNOR. Thank you very much. This has been a very worthwhile and beneficial exchange here, and I am sure we will be looking forward to your returning. I just might say in agreeing with Senator Randolph I never cease to be amazed. You make these appearances day by day, in front of sometimes hostile members, and you never cease to come up with the expertise and knowledge to answer those questions. We certainly appreciate your being here today and giving us all this time. We will look forward to your coming back.

Mr. STOCKMAN. Thank you, Mr. Chairman.

Senator ABDNOR. I might say we stand now recessed until Friday, July 24, when we will be taking up the issue of overall water needs. Plus, I am going to introduce a noncontroversial deauthorization bill. We stand in recess.

[Whereupon, at 11:50 a.m., the subcommittee recessed, to reconvene subject to call of the Chair.]

[Mr. Stockman's prepared statement and a joint letter from several Members of the House of Representatives follow:]

July 14, 1981

STATEMENT OF DAVID A. STOCKMAN
DIRECTOR, OFFICE OF MANAGEMENT & BUDGET
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES OF THE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE
July 16, 1981

Mr. Chairman, members of the committee, I am pleased to have the opportunity to comment on the Administration's deep draft and inland waterway user fee proposals.

One of the key reform criteria used in drafting President Reagan's program for economic recovery was to recover clearly allocable costs from users. When the federal government renders a service directly to economic enterprises at less than cost, the service amounts to a subsidy. Subsidies not only increase the size of the federal budget, but almost inevitably distort the workings of our free market economy. Such distortions decrease economic efficiency. I believe the user fee proposals I will discuss today will not only help to reduce the federal budget deficit, but will also help create a more efficient transportation system.

S. 809 and S. 810, the Administration proposals, go a long way toward reforming water resources cost sharing, because navigation constitutes a large and important aspect of water resources development.

As you may know, the Secretary of the Army has submitted substitutes for both bills. The major change is that the substitute for S. 810 bill now covers only the inland waterway transportation system. The previous language inadvertantly included some additional facilities. The major change in S. 809 is that projects not under construction as of October 1, 1981, will be covered rather than waiting until October 1, 1982. Also other perfecting changes were also made in the bills.

Deep Draft User Charges - S. 809

The Administration's deep draft user charge is intended to place federal dredging on a business-like basis. The bill calls for a contract between the interested non-federal public body and the Secretary of the Army. The interested public body is unspecified in the legislation. In most cases we expect it would be a port authority, but it could also be a state government or other public entity. The contract would define the work to be done and the payments to be made. The process would be very similar to that which the port would follow if it were hiring a private contractor to do the work, as many ports have done in the past. The port of Long Beach, for example, obtained their own financing and privately constructed a 60 foot deep channel.

The contract would call for the repayment of 100% of the actual operation and maintenance costs for each channel or port. Operation and maintenance user charges can be based on projections of costs, and adjusted later to reflect actual Corps costs.

Where a port or a channel serves Naval, Coast Guard, or other non-commercial governmental traffic, the project sponsor's charge would be reduced. The project sponsor would be charged based on the proportion of non-governmental traffic using the port.

When new construction is desired by a port--a deeper channel or larger turning basin for example--the cooperator would have three choices:

First, the project could be done by the Corps of Engineers, initially at federal expense but with the federal costs reimbursed by the project sponsor at the yield rate for Treasury notes over a period of up to 50 years. The rate will be changed every 5 years to reflect the current cost of treasury borrowing. In this case the project would follow existing procedures for federally constructed navigation projects. That is to say, it would be individually authorized by Congress on the basis of a feasibility report, and later, federal funds would be requested and appropriated in the annual budget process.

Second, the project could be done by the Corps, with financing provided by a non-federal public body through any means available to it. In this case, if the Secretary finds the project to be justified, authorization would be automatic under the terms of the bill. If no government vessels would benefit, and if the non-federal funds were provided prior to necessary expenditures by the Corps, no federal appropriations would be necessary. Bypassing the federal authorization and appropriation process could result in significant time savings, perhaps as much as two or three years, and possibly lower the ultimate cost of the project as well.

A third possibility is for the local entity to contract for channel construction with a private firm. While the construction would still be subject to applicable environmental and safety requirements, some speed or cost savings might be achievable compared to federal procedures.

Objectives of the Bill

One of the objectives of the deep draft bill is to reduce the budget deficit. The Corps of Engineers spent $297 million for deep draft operation and maintenance, primarily dredging, in fiscal year 1980.

In fiscal year 1982 the corresponding amount budgeted is $320 million. If the user charge proposal takes effect in 1983, as proposed, then the federal budget savings should amount to about the same amount, $320 million, for operation and maintenance including an estimated reduction for governmental use.

In recent years, federal deep draft construction expenditures have been low, about $100 million in 1980. It is very possible, however, that deep draft construction outlays will rise rapidly in the future and constitute a severe budget drain.

The United States will have to deepen some ports to remain competitive in the world market. Waterborne trade is rapidly increasing -- foreign commerce tonnages handled by U.S. ports doubled during the last decade. A recent study done for the Maritime Administration indicates that the average draft of most categories of ships in the world fleet will increase during the next ten to twenty years. The draft of the average dry bulk carrier, a class including coal carriers, will grow by 4 feet over the period. Tanker drafts are projected to increase by a further 8 feet by the year 2000.Three harbor deepening projects that are nearing a construction decision--Norfolk, Mobile, and New Orleans--have a combined construction cost of more than $1 billion dollars.

Just these three projects might result in a combined drain on the budget of $400 million in a single year. Of course, if our deep draft proposal is accepted, one or more of these projects might be privately financed, and not require federal appropriations. Even if they should each use the available federal financing, the impact on the debt over 50 years or less would net to zero, as the government investment was repaid.

Another objective of the bill is to lessen the distortions on the transportation system resulting from the federal subsidy for dredging. I believe that not requiring users to bear the full cost of their activities encourages over-development of high cost ports because dredging becomes a free good. On the other hand, some ports receive less than optimal development because of rationing caused by tight budgets. Instituting a market test of the value of port maintenance and development will eliminate dredging that users are unwilling to pay for, and thus help to establish quickly where dredging is economically viable.

Because the budget impact of port dredging would net to zero -- almost immediately in the case of operation and maintenance, and over time in the case of new construction -- all economically justified maintenance and construction could proceed on a schedule with far less regard to budget constraints and the timing of the budget cycle than at present. This would, of course, allow better federal service to both the ports and their traffic.

Based on the small amount to be recovered relative to the value of trade, I believe traffic diversions caused by the Administration's deep draft operation and maintenance charge will also be small. Diversions would not be significant at the national level. In 1979, waterborne exports and imports totaled 960 million tons, valued at $245 billion. If the Administration's user charge proposal had been in effect in 1979, we would have recovered about $250 million in operation and maintenance costs, or only about 1/10 of 1 percent of the value of U.S. international trade, and an even smaller percentage of the value of total trade, including coast-wise movements.

Locally, there will be some movement of trade from low volume, high cost ports to ones which are less costly.

Although the average cost of Corps operation and maintenance for ports is now about 20 cents per short ton of commerce nationwide, the cost varies between major ports from almost nothing at some low-maintenance ports like Los Angeles/Long Beach, to as much as 70 cents for a high cost port like Sacramento. For comparison with the dredging costs, the average commodity value per short ton moving in international commerce in 1979 was about $255.

As a result of the operation and maintenance user charge, diversions of traffic to lower cost ports are likely to be significant only in isolated cases, because dredging costs are such a small component of the total cost of making, transporting, and marketing products traded by water. Other factors are likely to be much more significant in determining trade patterns.

I believe, however, that if project sponsors choose to recover construction costs with user charges, this will be a significant factor in determining where new development takes place. Well over $400 million is at stake to construct a 55 foot deep channel at Norfolk,and an investor would have to be quite certain the traffic could bear it before he would sign on the dotted line. With user charges in place, however, federal funding would not be a constraint on the construction of well justified projects. I think the willingness of industry, local government, and private investors to bear the cost is the best test of the probable worth of such development.

Based on our preliminary data, harbor deepening at potential coal ports would be financially feasible under our construction user charge proposal. The willingness of local government and the private sector to pay for such projects would certainly accelerate work compared to the existing federal process.

Alternatives to the Administration's Bill

There has been some discussion of user fees which do not collect the full cost of operation and maintenance and construction. I am opposed to this approach to user fees.

One hundred percent recovery of costs, rather than some lesser amount, is necessary to preclude further subsidies to a healthy sector of the economy. Subsidies tend to grow once the principle of business-like operations is abandoned.

I think 100 percent recovery, minus of a fair share for Naval and other governmental use, is the right amount to charge for commercial-industrial dredging services the U.S. government provides.

It has occasionally been suggested that the best and simplest way to take care of the cost of dredging would be to levy a surcharge on existing customs duties. It is not the best, or even a good way to handle dredging costs.

- A surcharge or other across-the-board approach would not allow a market test of new deepening projects.

- Because such a surcharge would not be a charge for services rendered in connection with particular imported articles, it would be viewed by foreign nations as similar to a tariff, and invite retaliation in kind. The State Department and the Office of the United States Trade Representative have informed me that a customs surcharge would be a violation of the General Agreement on Tariff and Trade (GATT), to which we are a contracting party. It would constitute a violation of that agreement with respect to a host of other nations.

- Increasing duties would be similar in economic effect to a sales tax on all Americans because it would be passed on only to U.S purchasers of imports. The cost of dredging can be much more clearly allocated to the users than this. The user charge can also be passed on to foreign purchasers of U.S. exports -- who also benefit from use of U.S. ports.

- Contrary to proponent's claims, such a surcharge would not contribute to equity between ports, because duties

> usually are based on value rather than bulk, and it would discriminate against ports handling general cargo in favor of ports handling low value bulk, like coal or grain.

I believe user charges for ports should not be collected by a federal agency, but by whatever entity wants to dredging service. Non-federal administration of user charges would let the same people who already easily and flexibly collect fees to cover the landside, dredge, disposal, and connecting channel costs to continue in charge of their own houses. Collection by the appropriate non-federal body avoids building another layer of federal bureaucracy to administer the charges, thus saving about $3 million dollars and associated personnel spaces.

Shallow Draft User Charges -- S. 810

The Administration's proposal for user charges on the inland waterway system bill is designed to recover the federal cost of operating, maintaining and constructing the nation's inland navigation system. In one form or another, similar legislation has been forwarded by Presidents for more than 40 years.

In 1978 some progress was made on the issue when a modest fuel tax was enacted. We now have the first quarter's results on initial collections from the fuel tax -- $5 million -- less than half of the amount previously estimated. If this trend continues, by 1986, when the tax has increased to 10 cents per gallon it will yield less than 13% of the cost of maintaining the system. Clearly the tax is only a token contribution to operating the system.

The Administration's proposal would raise fees initially to recapture 100% of operation and maintenance costs for commercial navigation without recovering any of the capital investment on waterways available for traffic prior to October 1, 1981.

As new components are built and older ones replaced, capital charges -- with interest -- will be incorporated into the fee structure. It will probably take more than 50 years for charges to reach 100% of costs. We believe that this method of phasing capital costs into the fee structure substantially reduces the disruption that would be entailed in immediately moving to 100% recovery of federal cost.

Fee collections from the users will be the responsibility of the federal government, because the facilities are constructed, owned, and operated by the federal government, and they constitute a network of rights-of-way rather than terminals only. In many cases, the waterways form the boundaries of states, with no obvious public body having a predominant interest.

While we are committed to eliminating subsidies to waterway users we do not want to be too disruptive to the nation's established trading patterns. At this time we do not know which fees or combination of fees will yield the requisite revenue consistent with minimal disruption. The fee collection mechanisms allowed in the bill are deliberately flexible. The Secretary of the Army may, for example, promulgate license fees, lockage fees, congestion fees, and so on, in any way that will meet the cost recovery objective. However, in the interest of efficiency, we propose that the fees be varied commensurably with the costs of the various segments of the system. The model developed by the Department of Transportation in response to section 205 of the Inland Waterway Revenue Act of 1978 will provide the Secretary of the Army with timely information on the best way to construct the initial fee schedules. Later these schedules can be adjusted as experience is gained in actual operation. The bill does not preclude cross-subsidies between waterways. This will allow the Secretary to aid waterways where traffic is growing but not yet able to sustain its full share of costs by increasing fees on mature waterways. Our intent, however, would be to have for each waterway carry its own costs to the extent feasible.

One of the controversial sections of the bill will be the section on cost assignment. Most navigation projects were authorized many years ago for navigation. Over time, new uses have been found for the pools created by navigation projects, such as recreation and water supply. Recognizing such uses, we have reduced the amount to be recovered by fees to commercial users by 10%. Twenty five percent of total expenditures for work on the lower Mississippi River will be defined as maintenance of navigation features and will be subject to recovery through user charges. This is because such work is more in the nature of a continuous process rather than a onetime expenditure as in construction. The cost allocation is in line with the Corps' best estimate of the proper amount attributable to navigation.

Where an existing project includes reimbursable purposes by law, cost recovery will be based on the existing cost allocation.

Objectives of User Fees

I am convinced that the imposition of user fees will increase overall national economic efficiency. If a plant locates in one region rather than another because the decision was biased by the presence of a subsidy, the nation's overall economic efficiency is reduced and the nation's output is smaller. Because the decision maker does not consider the cost of the subsidy when he makes a decision -- only his own costs, he may locate where it costs him less, but you and I, the taxpaying public, end up paying the difference.

I believe user fees will also provide a test of the economic value of retaining some segments of the waterway system. As you know, once the government operates something, there is no profit mechanism to tell it where to stop. I believe that when the waterway industry pays the costs of the system rather than receiving it free from taxpayers that it will help identify unneeded segments and help show where cost reducing improvements should occur.

And, as with the deep draft bill, we are trying to control federal costs, bring our expenditures more into line with our pocketbook and put this nation's economy back where it ought to be, strong, viable, and growing.

Economic Impacts of the Bill on the Waterways

The initial fees on the waterways will be nominal compared to the overall cost of moving goods. The cost increase will be less than that brought about by the recent increase in fuel costs, which appears to have had little effect on waterway traffic.

When subsidies are removed there will be some impacts on waterway operators, shippers, and receivers. Based on early reports from the Section 205 studies we expect the principal effect will be on future growth. Overall, if railroads do not raise their waterway competitive rates as user charges are imposed, which is a very strong assumption, traffic will grow 30% rather than 62% between 1977 and 1990. There appears to be little effect on coal traffic which will increase 100% with or without the fees. The growth of other commodities will average 3% rather than 10%. Petroleum traffic will actually decline with or without user fees.

No significant impacts have been found on production or for shippers or receivers of most commodities. Either they have low cost transportation alternatives or the cost of transportation is not a large part of the delivered price of their goods.

Shippers of farm commodities will be affected by this bill, but we do not expect the affects to be great nor to be experienced equally by all producers. Cost of shipment down the Mississippi system will increase about 3 to [illegible] cents per bushel for grains shipped to New Orleans. Those producers who now deliver grain directly from farm to barge with no intervening transportation costs will experience the greatest impact. Those farmers that ship corn from western Iowa or wheat from the Dakotas will feel little or no impact from the user charges.

The Department of Transportation will provide further data on the impacts of waterway user charges, but I think you will agree that the economic advantages of removing the subsidy from inland waterways far out weigh the effects we have identified.

The Administration bill makes allowances for the fact that it takes several years for a new waterway to attract those industries that can utilize the unique characteristics of waterways. The Secretary is given the discretion to phase in user fees on new waterways so that a traffic base can develop before full charges are made.

Coast Guard User Fees

On a related matter, I would note that the Administration has also proposed legislation to initiate user charges for many of the services provided by the Coast Guard. I strongly support this approach for financing these services. The Coast Guard fees would be charged for a wide variety of services, such as administering license examinations for merchant seamen, the inspection of vessel hulls and systems to assure their safety and integrity, and general annual fees for services to all boat owners, such as rescue and assistance responses and maintaining the navigation systems in our channels. Costs of Coast Guard services attributable to national defense, law enforcement and other services not properly allocable to maritime users have been excluded from the base used to calculate the Coast Guard fees. We have been careful to avoid any duplicate collection among these different fee structures for Coast Guard and Corps of Engineers work.

Mr. Chairman, this concludes my prepared testimony and I stand ready to answer your questions.

Congress of the United States
House of Representatives
Washington, D.C. 20515

August 6, 1981

The Honorable James Abdnor
Chairman
Subcommittee on Water Resources
Environment and Public Works Committee
61 B Capitol Hill Annex
Washington, D.C. 20510

Dear Mr. Chairman:

Enclosed for your subcommittee's consideration is a copy of a letter we have sent to Office of Management and Budget's Director David A. Stockman. It disputes a cost figure he cited before your subcommittee of 70¢ per short ton of cargo per year for the Corps of Engineers to operate and maintain the Port of Sacramento. As you can see, we strongly feel that the true cost figure is 12.5¢. We do not understand by what basic data or what accounting or philosophical assumptions a figure as extreme as 70¢ could have been generated.

We are worried by an apparent attempt to rigidly apply one set of philosophical criteria to the future of our port systems. It is true that in many instances what makes sense for a private corporation balance sheet also produces general economic benefits. However, all economic benefits do not necessarily flow from the private profit motive. There are purposes which the government can fulfill to the general economic welfare which private enterprise finds beyond its ability or interest. The decision to create the port in Sacramento's great central valley and thereby to provide an essential link between the foreign agricultural markets and one of the U.S. premiere agricultural regions is a case in point.

We respectfully urge the committee to correct the record with respect to the annual costs of the port in Sacramento and thank you for your consideration.

Sincerely,

Vic Fazio
VIC FAZIO
Member of Congress

Robert T. Matsui
ROBERT T. MATSUI
Member of Congress

Gene Chappie
GENE CHAPPIE
Member of Congress

Congress of the United States
House of Representatives
Washington, D.C. 20515

August 5, 1981

Mr. David Stockman
Director
Office of Management & Budget
Old Executive Office Building
Washington, D.C. 20503

Dear Mr. Stockman:

In testimony before the Water Resources Subcommittee of the Senate Committee on Environment and Public Works on July 16, 1981 you said that it cost the Federal Government 70¢ per short ton of cargo per year to operate and maintain the Port of Sacramento. We are aware that your intent was not to discuss Sacramento itself, but rather to illustrate the disparity between operations and maintenance costs at different U.S. ports. Our concern, however, is that according to every means of calculating Sacramento's costs we can use, your figure is extremely high and we fear that some damage has been done to the Port.

The Corps of Engineers in Sacramento calculates the Port's cost over 18 years as having been $4.748 million for dredging, $2.332 million for operations of a recreational boating lock that provides little, if any, real benefit to the Port itself, and $3.147 million for other bank protection and similar miscellaneous work that is difficult to calculate and attribute. Even attributing all those latter costs to the Port, total expenditures for Port operation and maintenance over 18 years of its life amount to $7,895,000.

The issue then becomes whether we should calculate annual average costs per cargo ton on the basis of the entire 18 year history, or whether we should average the cost over 18 years and divide by the cargo benefit of the current year or the last five years or of any representative period of years. This choice generates widely differing results.

In our view, the relevant question is what is the Port of Sacramento worth today. From 1974 til now its annual cargo has risen through the following levels: 1.4 million tons, 1.95, 1.66, 1.81, 1.92 to 2.18 million in 1979, 3.32 million in 1980, and an estimated 3.5 million tons in 1981. The figure the government should key on is the figure for 1981, because that is what the Port is worth now, when we are determining how much it cost us. The 18 year $7.895 million in cost divided by 18 years ($438,622) and then again by 3.5 million tons gives us a figure of an annual average per cargo ton operation and maintenance cost at 12.5¢, 7.5¢ lower than the 20¢ per ton national average you sighted before the Senate Resources Subcommittee.

We bring these facts to your attention in the hopes that you will clarify the assumptions that might have gone into your calculations. We are unable to determine how the 70¢ figure was generated. Beyond that we hope that you will set the record straight as to these assumptions and the true costs for the benefit of the appropriate committees of Congress and to rectify damage done the image of the Port of Sacramento.

Thank you very much and best regards,

Sincerely,

Vic Fazio
VIC FAZIO
Member of Congress

Robert T. Matsui
ROBERT T. MATSUI
Member of Congress

Gene Chappie
GENE CHAPPIE
Member of Congress

WATER RESOURCES POLICY ISSUES

FRIDAY, JULY 24, 1981

U.S. Senate,
Committee on Environment and Public Works,
Subcommittee on Water Resources,
Washington, D.C.

The subcommittee met at 9:35 a.m., in room 4200, Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor and Gorton.

Deauthorizations

Senator **Abdnor**. The subcommittee will please come to order.

This morning we will be discussing S. 1493, a number if projects that are being considered for deauthorization, and more specifically the Meramec Dam is one of those.

With us today are the Senators from Missouri, Senator Danforth and Senator Eagleton.

I won't attempt to dictate which one will go first.

Senator **Danforth**. Senator Eagleton always goes first.

STATEMENT OF HON. THOMAS F. EAGLETON, U.S. SENATOR FROM THE STATE OF MISSOURI

Senator **Eagleton**. I want to thank my colleague, Senator Danforth and thank you, Senator Abdnor, for convening this hearing and giving the prompt attention which you have to the Meramec Dam situation.

I appreciate the opportunity to testify in support of the amendment Senator Danforth and I have sponsored, S. 1493, to deauthorize the Meramec Park Lake project in Missouri. I commend you for your resolute action in separating projects such as Meramec Dam from other water policy questions. A consensus has been reached, in my opinion, that the Meramec Dam should not be built and, therefore, we should move expeditiously to take it off the books.

It has been almost 3 years since 64 percent of the people in Missouri voted in an advisory referendum not to proceed with this multimillion-dollar project. Senator Danforth and I have had legislation pending in the last two Congresses to deauthorize the Meramec Dam in compliance with the wishes of a majority of Missourians. We are very hopeful that S. 1493 will move quickly toward this goal. The reason we need to move quickly is because the Federal Government owns some 28,000 acres at the project site, and this land should be put back on the tax rolls, or substantial portions of it.

Ordinarily, the disposition of such property would be determined in a deauthorization process extending over a decade. The Corps of Engineers policy is to wait at least 8 years from the time of the last appropriation before proposing a deauthorization to Congress. But Meramec poses a "catch 22" situation. The 8-year clock will never start running because, as long as the Federal Government owns the lands, money must be appropriated to maintain and protect the acreage. To do otherwise is irresponsible. Thus, in fiscal year 1979, $150,000 was expended for this purpose; in fiscal year 1980 $185,000; in fiscal year 1981, $205,000; and for fiscal year 1982, $358,000 has been requested by the administration. Clearly, if we allow the project to remain on the books, it will be costly.

In our proposal last year, Senator Danforth and I proposed a 1-year study to guide the Congress in disposing of the lands. During the intervening years since Missourians rejected the Meramec Dam, six studies by various independent groups and the Missouri Department of Natural Resources have been done. These studies were consulted in developing the plan we now put forth; it is endorsed by Governor Bond and State officials responsible for administering recreation and conservation resources. In addition, I have received hundreds of letters from Missourians who support deauthorization, and favor varying degrees of recreational development, as well as the return of the lands to the tax rolls. I believe our plan addresses all of these concerns, and does so fairly in the best interest of the taxpayers.

Briefly, the elements of the Meramec Dam section would accomplish the following:

One, immediately deauthorize the project.

Two, turn over the visitor's center and approximately 19 percent of project lands to the State of Missouri to administer for recreation and conservation purposes.

Three, establish an easement for conservation purposes along the river that would be administered by the State of Missouri.

Four, sell back to the former landowners all of the remaining 81 percent of the lands at either the price paid by the Government or at the current appraised value, whichever is less.

Five, dispose of, at public auction, any lands not sold to the original owners.

Mr. Chairman, we have already lost too much valuable time in complying with the wishes of Missouri voters. It is imperative that we adopt this measure so that the uncertainty surrounding the future of these lands is removed as quickly as possible. As far as I know, this approach to deauthorizing a public works project is unique, but Meramec Dam poses a unique situation. I believe that we have designed a reasonable and conscientious plan that is responsive to the wishes of the Missourians who will have to live with our decision. I hope my colleagues will support this measure in the interest of equity for Missourians.

Thank you, Mr. Chairman.

Senator **Abdnor**. Thank you, Senator.

Senator Danforth.

STATEMENT OF HON. JOHN C. DANFORTH, U.S. SENATOR FROM THE STATE OF MISSOURI

Senator DANFORTH. Thank you very much. And let me express to you my appreciation, not only for the hearing but for your willingness to move so expeditiously on the deauthorization bill.

This project, Mr. Chairman, was first authorized, I am told, back in 1938. Think of that, 1938. I was 2 years old then; Senator Eagleton was a young man just out of college.

But this has been a matter, Mr. Chairman, that has been before the people of Missouri for virtually all of my lifetime, and it has been a matter which has been very steadily debated, at least in the last 10 years.

As a matter of fact, when I ran for the Senate back in 1976, the issue of the Meramec Dam was, I suppose, the single most asked question of me, particularly during the early part of that campaign. I think my first position paper of the campaign had to do with the Meramec Dam. So, it has been a matter which has been considered and debated.

As Senator Eagleton pointed out, 3 years ago the people of 12 counties plus the city of St. Louis, the area immediately surrounding the Meramec Dam, voted in a referendum, and 64 percent of them voted that they did not want this project.

The justifications for the dam put forward by the Corps of Engineers in the early and mid 1970's were iffy at best. And when those were debated, the people of our State who participated in that referendum decided that the negatives far outweighed the pluses.

There is no real doubt, Mr. Chairman, that the Meramec Dam is not going to be built, and therefore, what do we do?

I think that everything has to come to an end. There has to be an end to argument, an end to litigation. This deauthorization bill gives us an opportunity to put an end to the Meramec Dam, to decide officially that it is not going to be built, to end the process of the annual appropriation simply to maintain it.

I am told that in 1982 the maintenance request is $358,000. But beyond that, the fact, that this land is in limbo, that families owned it sometimes for generations, and now it is owned by the Government. The chance to return some 80 percent of it to the owners and utilize the other 20 percent in the most environmentally fragile and historically important areas for public land I think is a sound and a good idea and a good disposition of it.

Senator Eagleton and I, as witnessed by our presence here this morning, are strongly in favor of this bill. Governor Bond, I might say, for a long time actively supported the construction of the Meramec Dam, but he realizes that it is not going to be built by the referendum, and he supports the deauthorization bill. A representative of his administration is here and will be able to go into the details and also present the Governor's position.

So, it would be our hope that the committee could move on this in an expeditious fashion and it could be brought to the floor and finally we can get this project deauthorized.

Senator ABDNOR. Thank you, gentlemen.

Let me ask you one question about the provision of your bill that deals with treating of the land.

You suggested that the land be returned to the former owners at cost or appraisal value, whichever is less.

Would you object to a change that would sell the land back to the original owners at today's appraisal value? Would that be of great concern to you?

Senator **Eagleton**. I daresay, we prefer the bill as is written, but I would not consider the change that you suggest to be a monumental hurdle.

Senator **Gorton**. What is the rationale of the original sale?

Senator **Danforth**. Many of these owners, did not want to sell their land, but the Government bought their land anyway.

Senator **Gorton**. How long ago?

Senator **Eagleton**. Over a wide period of years, starting in 1968.

Senator **Danforth**. But I would think it would be reasonable that the Government wouldn't end up profiting through speculation on the land. It would seem to me that the people who had it, in essence, taken from them, would have the benefit of the fairest return they could get.

Senator **Abdnor**. You suggest returning that land to the States, had that been privately owned?

Senator **Danforth**. Yes.

Senator **Abdnor**. Would that cause some concern?

Senator **Danforth**. Mr. Chairman, I think, as is true with any proposal like this, there would probably be people on both ends of the spectrum. There would be people who would say, Let's return it all to the original owners, and there would be people to say, Let's set more aside for environmental purposes.

Senator **Abdnor**. Would that be more for recreation areas?

Senator **Danforth**. It is a stream. It is one of the assets of our part of the country, the availability of streams and float streams, and there could be canoe access points and there are also various environmental and historic points which Mr. Lafser would be able to describe in greater detail.

Senator **Abdnor**. Senator Gorton.

Senator **Gorton**. I had the same questions you did and they have been answered.

Senator **Abdnor**. Is there any discussion about deauthorizing it to restructure the project?

Senator **Eagleton**. There are witnesses, perhaps one or two today, with other points of view, Mr. Chairman. I don't think we should try to say that what Senator Danforth and I are proposing today is unanimously accepted in the area. There are proponents of going forward with a smaller dam or other combinations of ideas. There is a sizable number of people who, despite the referendum which was overwhelming in nature, nonetheless the 36 percent who voted for it, there are many among that group who seriously believe that some form of dam project should exist or continue.

Senator **Abdnor**. Other than planning and designing the land acquisition and upkeep of the land you acquired, is that basically where the money has been spent today or has there actually been some construction?

Senator **Danforth**. Not on any dam. There has been the visitor's center, I think, that has been built.

Senator **Abdnor**. That will be usable?

Senator **Eagleton**. Some land has been cleared, but no dam construction ever went forward.

Senator **Danforth**. Mr. Chairman, if I could answer your previous question on any studies of other possible projects, smaller dams and the like, I think almost everything conceivable has been studied and debated and written about and been a matter of public discourse for some time. And I think that you would always be able to find people who would advocate one variation or another on a dam. But I don't think that there is any reasonable possibility of having half a dam. This is either a stream or it is a lake, that is the simple question.

And most of the people in the area, not all of them, want a stream. And it would be our view, I think, that the presumption exists in favor of continuing the use for which nature put this part of the world rather than changing it. And that the burden of proof would have to be carried by those who would want to change it.

So, it has been studied with elaborate detail. I think what Senator Eagleton said in his statement, some six studies have been made.

I think that the time has come to end it. And if we don't, there are numerous ways, I suppose, we could figure out to talk about it forever. But all litigation has to come to an end.

Senator **Abdnor**. Thank you Senator Eagleton, Senator Danforth. We appreciate you coming early in the morning.

Senator **Danforth**. I have a statement that I would request be put in the record.

Senator **Abdnor**. I will be happy to include it in the record.

[The statement referred to follows:]

STATEMENT OF SENATOR JOHN C. DANFORTH
BEFORE THE SUBCOMMITTEE ON WATER RESOURCES, SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

July 24, 1981

Mr. Chairman, first I want to take this opportunity to thank you for the speed with which you have scheduled this hearing on S. 1493. I have labored since the time of my election to the Senate to terminate the Meramec Park Lake project in eastern Missouri, and the going has seemed slow at times. I welcome your expedition and hope it extends through final passage of this bill.

This project was initially authorized in 1938 as part of a series of flood control dams in the Upper Mississippi River basin -- dams designed to reduce runoff into the Mississippi. The authorization was amended in 1966, and funding for land acquisition and final design began to flow two years later.

In my campaign for the Senate five years ago, I opposed completion of the Meramec Dam on the basis that the benefits were not commensurate with the costs. To take but one example, the Corps of Engineers estimated that the dam would provide a high degree of flood protection for 11,800 acres downstream. It would do this by flooding 12,600 acres upstream.

In 1977 and 1978, I opposed appropriations for this project and succeeded in having its funding removed from the Corps' budget. Then, on August 8, 1978, a special non-binding referendum was held in the twelve counties and St. Louis City of the Meramec Basin. The vote was 256,703 against the project, 148,078 in favor; sixty-four percent of the voters opposed further construction. In only two of the thirteen jurisdictions did the project win a bare majority.

The project at that time was estimated to cost $124 million. Since then the cost has risen to $220 million, and the justification is no more apparent. In the meantime, the Corps requires a substantial annual appropriation simply for the upkeep of the lands it has acquired; its request for Fiscal Year 1982 is $358,000.

To date on this project, a total of $31,623,000 has been spent, of which $15,356,400 went for land. This legislation should recoup for the federal treasury the bulk of that latter figure, while halting the continuing outflow for maintenance.

In order to justify this project, the Corps attributed nearly half of the projected benefits to recreation. That was poor thinking then and even worse now. Creation of a reservoir would do nothing more than trade stream-oriented recreation for flat-water recreation. Meanwhile, a major new reservoir, known as Clarence Cannon Reservoir or Mark Twain Lake, is being completed northwest of St. Louis. In my opinion, preservation of the Meramec and its tributaries as free-flowing rivers, little more than an hour from St. Louis -- as this legislation intends -- is more advantageous to recreational opportunities in eastern Missouri than a new reservoir ever would be.

Another argument advanced on behalf of this reservoir concerns water supply and water quality. But even when the project was planned in the mid-'60s, the Corps was told that it would be cheaper to take care of water quality problems--pollution control--with pipelines to the Mississippi than with flow augmentation on the Meramec. As for water supply, the Corps' report found no such need at all in the Upper Meramec basin; and as for the Lower Meramec, in and around

St. Louis, I am reminded of a remark in the New Yorker several years ago, stating that Meramec Park Lake is planned "as an emergency reservoir for St. Louis should the Mississippi River happen to run dry."

This project was originally authorized for flood control -- to reduce runoff into the Mississippi, not along the Meramec. In its more recent planning, the Corps has emphasized flood damages along the Lower Meramec, but remedial steps have been planned, and in some cases initiated, to take care of that problem. A combination of levees and easement acquisition along the river could do much to alleviate the situation.

Nearly three years have passed since the voters of Missouri voiced their opposition to this project, and the time has come for action. The legislation before you today has the full support of both Senators from Missouri, as well as Governor Christopher Bond. It turns over approximately nineteen percent of the lands acquired by the Corps to the State of Missouri in order to preserve the most important historical and environmental resources in the area. A conservation easement protecting the river banks from new development within a line of sight of the river also is to be established, with the result that some twenty-eight miles of river corridor will be preserved in its natural state. Fred Lafser, the Director of Missouri's Department of Natural Resources, is present to explain these provisions of the bill in detail.

The remainder of the property--more than four-fifths of the Corps' holdings--will be sold back into private hands, with the previous landowners getting first crack at repurchase. These people, who had their property taken from them for a project that will never be built, will have the option of buying their land back at the price the government paid them or at current appraised value, if that is less. Any land not disposed of in that fashion will be sold at public auction. The proceeds from these sales, I understand, will augment the Land and Water Conservation Fund.

Mr. Chairman, this legislation is needed for reasons of equity, economy, and esthetics: equity, because the original landowners should no longer be deprived of their property, nor should the counties be deprived of their tax revenues; economy, because we will be halting a wasteful, $220 million project that is eating up hundreds of thousands of dollars annually in maintenance costs alone, and because we will be returning millions of dollars to the federal treasury, where it is sorely needed; and esthetics, because the Meramec is one of Nature's gems, flowing down from the rocky springs of the Ozarks through one of our Nation's great cities to the Mississippi, and should be preserved for the enjoyment of all.

I ask unanimous consent that an editorial from the St. Louis Post-Dispatch concerning this legislation be included in the record following my remarks.

My colleague from Missouri and I and Governor Bond are united in opposition to this dam, or any other dam on the Meramec. It is time to put this boondoggle behind us.

St. Louis Post-Dispatch

editorials

Time To Protect The Meramec

Sens. Eagleton and Danforth have introduced legislation to deauthorize the Meramec dam project, as has Rep. Bailey. Nearly three years have passed since voters in eastern Missouri demonstrated their displeasure with the project. It should be deauthorized — not solely to prevent some future dam, but to protect the river itself.

Make no mistake about it, the Meramec River is slowly deteriorating. It has not for a century been a truly wild river, since farming, grazing and timbering in its valley all have had their effects on the stream. Cabins have been built along it and it has been used and sometimes misused for recreation. But the Meramec remains a beautiful river, and the best source of river recreation close to the St. Louis metropolitan area. It should be protected.

As matters stand, the federal government retains ownership of 28,000 acres that were to include the 12,600-acre lake project about 65 miles southwest of St. Louis. The Army Corps of Engineers built a visitors' center and is attempting to maintain the land to a degree, but the area remains largely barren. The Engineers have been waiting for a congressional decision on what to do with the land. The river itself has been waiting. Unfortunately, Missouri's congressional delegation never agreed on a solution.

Rep. Bailey, first-term congressman from Willow Springs, has moved into this vacuum with a measure to deauthorize the project while calling for studies of alternative dam proposals. This effort at a compromise solution has satisfied neither dam opponents nor those who hope that, somehow and some day, a smaller dam might be built.

Meanwhile, Missouri's two senators have decided to cut through the issue with a comprehensive plan. Their bill would deauthorize the dam project and give the state of Missouri up to 5,122 acres for conservation and recreation purposes. The remaining acreage, or about four-fifths of the total, would be offered to the original owners at the price paid for it or at the current appraised value, whichever was lower, and parcels remaining after that would be sold at public auction.

This proposal, which has the support of Gov. Bond, would help to assure controlled recreation and protection of the upper Meramec. The state certainly can be counted on to preserve its acreage for the public. Its land would include 3,800 acres adjacent to Meramec State Park, plus sizable parcels at the Huzzah Wildlife Area and the Onondaga Cave State Park. Both are near the junction of the Meramec with its fine little tributaries, the Huzzah and Courtois.

One of the most protective proposals, however, is for a state easement ranging from 100 feet to a quarter of a mile back from the river, with another easement, much of it overlapping the first, to create a hiking trail from Meramec State Park to Huzzah State Forest, linking with the Ozark Trail. These easements would prevent development along the river banks, although existing buildings and farming could remain.

In short, the senators' measure would help to rescue the upper Meramec from a period of unprotected uncertainty, and turn much of the valley into a recreational preserve that generations to come could enjoy. The Missouri congressional delegation ought to consider the bill a guarantee of the Meramec's future.

Senator ABDNOR. Our next witness is Fred Lafser, director of the Missouri Department of Natural Resources.

STATEMENT OF FRED LAFSER, DIRECTOR, MISSOURI DEPARTMENT OF NATURAL RESOURCES

Senator ABDNOR. Mr. Lafser, we welcome you to the committee. If you have a written statement, we will be happy to include the entire statement in the record, or if you prefer you can read it.

Mr. LAFSER. Thank you for the opportunity to testify today. My name is Fred Lafser. I am the director of the Missouri Department of Natural Resources. That is the State agency responsible for recreation, historic preservation, water resources, and water supplies. I have submitted testimony to the committee and I will very briefly summarize that and concentrate on your questions in the interest of time.

I have also brought with me a detailed map that outlines the proposal for disposition of lands that may answer many of the questions you may have.

We believe this legislation offers a rational solution to a resource controversy that has existed in Missouri for over 50 years. Back in 1938 when the project was first conceived—that was just before I went to college—and the controversy still looms on, and we are interested in resolution of that today.

In 1978 an advisory referendum was held in eastern Missouri to resolve the future of the Meramec River, and since that time we have also been very interested and active in seeking deauthorization of the project.

To date the Corps of Engineers has acquired approximately 28,000 acres of land for this project. We have been working with a number of groups and individuals, and the proposals for resolution of what to do with this acreage has ranged anywhere from all of the property remaining in public ownership possibly managed by the Federal Government to none of the property remaining in public use.

We believe that what is offered today is a conservative alternative which keeps less than one-fifth of the property in public ownership and returns the rest to private ownership with resale revenues being returned to the Federal Treasury.

What remains of the project will be one of the finest stream recreation areas in the country near a large urban complex, the St. Louis metropolitan area, and we expect significant local economic benefits from that recreation industry.

Furthermore, there is substantial interest in the State for some of the properties, the most important remaining in public ownership and the State is willing to accept the responsibility for operations and maintenance and the administration of these public lands, and to be kept at a minimum cost. We are not advocating any new State recreation areas, per se, just expansion of existing areas.

In quick summary, the first exhibit is a map of the State of Missouri with the project being labeled some 65 miles southwest of the city of St. Louis. The Meramec Park Lake project is identified in the orange label.

We have spent a considerable amount of effort in what we think is the most comprehensive resource review of the project lands. In that review we have looked at not only the specific tract of property that the Corps of Engineers has acquired to date, those are indicated in the yellow and dark green colors on the map, which we will leave with the committee.

The areas that do not have the colored overlay have not been acquired. The project boundary originally is outlined in the dark black bold line. The large gray blocks of land are the existing State forest recreation areas with Meramec State Park on the north, Onandaga Cave in the south, and the Huzzah Wildlife Area also to the south.

In our inventory of the resources of the area, we looked at a number of different types of resources including endangered species, significant caves and springs, cultural resources, archeological sites, and also the recreational needs of this magnificent area. The black dots represent the concentration of archeological sites, primarily the prehistoric indian sites, but also the early white settlements, and cultural resources as well.

The bulk of those resources are concentrated along the streambank, but also in the area to the north which we are relating to here as the Hamilton Creek-Meramec Park extension.

The other areas which we have concern about are the springs and caves along the river. Those we feel can be protected with the easement which is proposed in this legislation as well.

So, our concern for endangered species, cultural resources and recreation we feel can be met with the bill as it is presented. It is, in our minds, a conservative approach to retention of the best of those properties. The endangered species sites which we know of today will be protected. The best recreation areas will be provided as extensions and boundary refinements of existing areas plus three new smaller 10-acre canoe access points to spread out the recreational use and gain some public control of the quality of that experience.

This is essentially the proposal that is referred to in the legislation and I will be happy to answer any questions at this time.

Senator **Abdnor**. Thank you, Mr. Lafser.

Do you have any idea how much has been spent on this project to date?

Mr. **Lafser**. It is approximately $31 million to date, the bulk of which has been for engineering design and acquisition of lands.

Senator **Abdnor**. This land that is to be turned over to the State, I think it is 19 percent of the total ownership of the Government, would you place a value on that?

Mr. **Lafser**. The rough estimate is approximately $5 million.

Senator **Abdnor**. Will you leave it for recreational purposes?

Mr. **Lafser**. Recreation and preservation of the endangered species and cultural resources in the area as well.

One of the initial intents of the original project, the Meramec Lake project, was recreation and we feel this alternative meets one of these original project purposes, and in doing that it is also meeting that objective without continual operating expense of the Federal Government.

Senator ABDNOR. You heard the exchange we had with Senator Eagleton and Senator Danforth about returning the lands to the original owners. Do you think they will want to accept the present appraisal value that was offered to them?

You are starting something all over the United States.

Mr. LAFSER. I think our primary concern is that 81 percent of the properties which will be available for resale, that the individual who originally owned that property and lost the property for the primary project, that he have an opportunity to repurchase that property.

Some concern has been expressed that in the interim with all of the uncertainties in the project land there has been the severe abuses of the property. No one is investing in rebuilding fences and keeping up the buildings and maintaining good agricultural soil practices. So, the property in some sense is depreciating in value because of the lack of wise investment in long-term agriculture. That I think has raised some concern with local people whether they were willing to pay as much as they were paid.

If that issue would be addressed in the appraisal, I would think that concern could be put to rest.

Senator ABDNOR. Thank you. We are all aware that since this land was acquired in Missiouri, like all the other States, inflation has taken the land up 200 and 300 percent. This may be something the committee will want to discuss. But, you are satisfied that this proposal we are discussing today to deauthorize has the support of the majority of the people in Missouri today? I know it did 3 years ago. Are you satisfied that it is still the sentiments of the people today?

Mr. LAFSER. Yes, sir.

Senator ABDNOR. Thank you very much. I appreciate your appearance.

Senator ABDNOR. Our next witness is Howard Wagner, Associate Judge for Jefferson County, Mo.

[No response.]

Senator ABDNOR. Is Judge Wagner here?

[No response.]

Senator ABDNOR. Our next witness is Albert Nilges, State representative for Bourbon, Mo.

[No response.]

Senator ABDNOR. Is Jerry Sugerman here? Fine. I will be happy to hear you now and possibly the other two witnesses will be coming in during your testimony.

We welcome you to the committee.

STATEMENT OF JERRY SUGERMAN, MERAMEC HERITAGE RIVERWAY ASSOCIATION

Mr. SUGERMAN. Thank you very much, Mr. Chairman. My name is Jerry Sugerman. I am from St. Louis, Mo., and here representing the Meramec Heritage Riverway Association, the Ozark Chapter of the Sierra Club, and the Missouri Friends of the Earth, who wish for me to express their views concerning S. 1493. Our particular interest is in section 2 thereof, which was prepared by Senators Danforth and Eagleton of Missouri to deauthorize the Meramec

Park Lake project of the Corps of Engineers and for other purposes.

We wish to express our support today for S. 1493 and to suggest that certain changes be made in section 2 in order to strenghten the bill.

By way of background, that section of the Meramec River affected by this legislation is highly favored by outdoor enthusiasts throughout eastern Missouri. Today there are over 1,700 rental canoes available in this area. A 1978–79 recreation use survey conducted by the Missouri Department of Conservation showed an annual visitor rate of 320,000 for all types of outdoor recreation. This included over 100,000 visits for canoe floating alone. Other popular activities were swimming, picknicking, camping, and fishing.

The great popularity of this river was borne out by another test as well. On August 8, 1978, voters in 12 eastern Missouri counties plus the city of St. Louis rejected the Meramec Park Lake project in a nonbinding referendum called by Senator Eagleton and authorized by the Missouri General Assembly. The voting counties included essentially all of the Meramec Basin plus the principal population centers whose people vist, recreate, and invest in the Meramec Basin. 256,703 or 63 percent of the voters rejected the dam. Eight out of the ten nonmetropolitan Meramec Basin counties rejected the dam by a 54 percent majority while the three metropolitan counties rejected it by 66 percent. Only two counties, representing only 2.4 percent of the total vote, supported the dam.

Senators Danforth and Eagleton have remained faithful to the people of eastern Missouri, who wish to see this project ended once and for all. We are deeply grateful to our Senators and commend them for having the courage and foresight to see this issue through to the end despite continuing pressure from the prodam Meramec Basin Association to dam the Meramec River.

Our Senators also appear to be pointed in the right direction insofar as their measures to settle the land disposition problem are concerned. Their guiding principles are correct:

One, the public should retain a high degree of control over portions of the land in order to protect important natural, scenic, and cultural features in the area.

Two, portions of these lands must remain in public ownership in order to provide improved public access to the area and to better manage the enormous user loads.

Three, former landowners should be given first option to reacquire their former holdings within those areas not reserved for future public use.

We concur in these objectives; however, we recommend that a fourth objective be added to foster and encourage continuing agribusiness in the area.

I would like to comment briefly on a few of the specific provisions.

To achieve their objectives, Senators Danforth and Eagleton have proposed that one-fifth of the land, 5,122 acres, be reserved for the State of Missouri in accordance with a plan worked out in consultation with State officials. We recommend that two-fifths of the land be reserved, including the section of river extending from Wilander Bluffs to Carter Creek Hollow inclusively.

The Senators have also proposed that the State maintain a scenic easement over land which is returned to the private sector, but that these easements shall not extend farther than one-fourth mile from the river bank. We recommend that the one-fourth mile limit be dropped and replaced by a provision allowing for easements to extend up to the line of sight or horizon as viewed from the river or other points of major public interest.

The Senators have also proposed that all lands not reserved for the State be sold back to the private sector with first option granted to former landowners for a period of 1 year following enactment of this legislation. We recommend that former landowners be granted a 5-year option to buy land or to lease it indefinitely. We believe this lease-in-lieu-of-purchase option is an important and necessary mechanism to improve the prospects for more economical farm operations in the area.

In summary, we urge the subcommittee to make four modifications to the land disposition plan:

One, increase the amount of land to be deeded to the State of Missouri by approximately 5,000 acres with lands selected from the Vilander Bluffs/Carter Creek section.

Two, eliminate the one-fourth mile upper limit on the extent of scenic easements, and replace it with a limit functionally defined by the line of site from the river or other key points of public interest.

Three, replace the language which gives first option to buy to former landowners with language which gives former landowners a 5-year option to lease indefinitely or buy.

Four, designate either the State of Missouri or Crawford County as the leasing agent.

The testimony which we have submitted to the committee contains a great more detail about these specific points.

In conclusion, I wish to say we believe the modifications recommended here would strengthen Senate bill, S. 1493. As currently written, this bill provides too limited means for achieving land preservation objectives and fails to deal in the fairest practical manner with agricultural interests. These shortcomings should be corrected before the bill moves out of committee.

The Meramec Heritage Riverway Association, the Ozark Chapter of the Sierra Club, and the Missouri Friends of the Earth appreciate this opportunity to present their views, and we certainly thank you very much for this time.

Senator ABDNOR. Thank you very much. We appreciate your coming in to bring us your views.

You made quite a number of recommendations that are different from the original proposal.

Could you support this bill if we didn't go along with all your proposals?

Mr. SUGERMAN. Mr. Chairman, I have to agree with the remarks that Senators Eagleton and Danforth made. This project has been at issue for over 40 years in Missouri and people are tired of the arguments. There is no reason to carry the project on further and the quicker we can get it deauthorized I think the better off everyone will be.

Let me amplify. The folks in Crawford County where the project lands are located are having a difficult time doing long-range planning. Maybe I should even say medium-range planning. They can't plan for 4 or 5 years down the road because they don't know what is going to happen to 28,000 acres of their land. I think the people in that county as well as the people throughout eastern Missouri will feel a lot better and be able to do a lot better planning for the future once the dam gets deauthorized. So, I think it is important to expedite this legislation.

Senator **ABDNOR**. You suggest that we return up to 40 percent of the land to the State of Missouri.

Mr. **SUGERMAN**. Yes, sir.

Senator **ABDNOR**. Do you think Missouri would be interested in purchasing it?

Mr. **SUGERMAN**. Under their proposal, they would like to see a good deal of this land protected with the scenic easements. Our organizations believe that these scenic easements won't work out as well as the authors of the bill had hoped. We believe that the best protection for these lands for certain types of lands would be public ownership. And the types we are talking about are places that are so steep and heavily wooded that they really are not worth anything to anybody else unless they can be developed. And if we are going to have easements that prohibit their development, they might just as well remain in State use because that is the only utility that they have.

The Vilander Bluffs area that we talked about, we believe would make an outstanding addition of the State system of natural areas and I don't believe that natural areas within the State system really take very much from the budget. This natural area could simply be added to annex to the existing Onandaga State Park as many other natural areas are throughout the State.

Senator **ABDNOR**. One of your other proposals was to give up to 5 years to purchase or lease, whatever they desire.

Mr. **SUGERMAN**. Yes.

Senator **ABDNOR**. Do you know of anyone that wouldn't grab this? It is like a giveaway for anybody to buy land for the same price they bought it back in 1967 or 1968. I would be happy to go down and participate as soon as they opened it up.

Mr. **SUGERMAN**. Senator Abdnor, I have to agree with you. I think that the bill as is presently written is going to create an avalanche, a massive amount, an influx of land speculators. There are land syndicates everywhere and I frankly don't object to them. They would seek out these original landowners—anybody can get the list of who they are—and set these folks up as straw parties and buy up the land. There is nothing wrong with their intentions, but I feel if there is going to be this massive influx of land speculation, that the Government has an obligation to protect that river against unwise development, especially since it was this Meramec Dam project that brought the notoriety to the river and therefore made land speculation such a prospective thing.

Senator **ABDNOR**. I feel that the people who were forced to give up the land should have the first opportunity to purchase it.

Mr. **Sugerman**. We feel the same way.

Senator **Abdnor**. I don't know about the formula.

Mr. **Sugerman**. If I could add one final thing, Mr. Lafser noted that if the land were appraised accurately at current market value, it probably would not have appreciated a great deal for those lands where we would retain some sort of public easements. Those lands which would be so back in total fee simple, they would have appreciated.

Senator **Abdnor**. Thank you very much.

Has Mr. Wagner or Mr. Nilges come into the room?

[No response.]

Senator **Abdnor**. I understand they possibly might be coming in in a few minutes. We don't want to keep them from having an opportunity to be heard.

We will recess for 15 minutes and see what happens.

Before I do that, I am going to place in the record a statement by Senator George J. Mitchell on behalf of the Dickey-Lincoln School Dam proposal.

[The statement follows:]

STATEMENT OF SENATOR GEORGE J. MITCHELL ON S. 1493

I would like to first express my appreciation to Senator Abdnor for introducing his omnibus deauthorization bill and for scheduling this hearing.

One of the provisions of S. 1493 would deauthorize the Dickey conponent of the Dickey-Lincoln School dam. This provision has the support of both Senator Cohen and myself.

As many of you know, Dickey-Lincoln has been the subject of debate, discussion and controversy for 15 years. But to this day nothing has been built. And all the while the cost of electricity to Maine people goes up and up. We must stop debating and start building -- a project for the benefit of Maine people.

Senator Cohen and I have worked together to develop this proposal which will continue authorization for the study and construction of only the Lincoln School dam on the St. John's River. Lincoln School dam has a 70 megawatt capacity and would be capable of generating 260 million kilowatt hours of electricity per year. Lincoln School, according to all the information to which I have had access, will not have the adverse environmental effect of the larger Dickey Dam. And, most importantly, Lincoln School's electrical output -- its 260 million kilowatts of power -- will benefit Maine families and the businesses on which Maine men and women depend for their livelihoods.

Again, I would like to thank Chairman Abdnor for his inclusion of the Dickey deauthorization in S. 1493, and his commitment to expeditious enactment of the legislation.

Senator **Abdnor**. Let me say, we have notified the various interested groups of the projects that are in this bill and asked them to testify or submit written testimony. We will leave the record open for 2 weeks for additional statements in the event anyone would like to submit additional testimony.

I also have a letter from Senator Harry Byrd, of Virginia, who is writing to express his support for certain provisions of S. 1493 which would deauthorize the remaining portion of the Nansemond River project in his area.

We will put that into the record.

[The statement follows:]

HARRY F. BYRD, JR.
VIRGINIA

United States Senate
WASHINGTON, D.C. 20510

July 23, 1981 c

My dear Mr. Chairman:

I am writing to express my support for certain provisions of S. 1493, which would deauthorize the remaining portion of the Nansemond River Project in order to allow for the widening of the U.S. Highway 460 bridge.

With best wishes, I am

Sincerely,

The Honorable James Abnor, Chairman
Subcommittee on Water Resources
Committee on Environment and Public
Works
United States Senate
Washington, D. C. 20510

Senator ABDNOR. We will stand in recess until 10:30.

[Whereupon, a short recess was taken.]

Senator ABDNOR. The committee will convene.

We are happy to have with us today Mr. Howard Wagner, associate judge for Jefferson County, Mo. Please proceed as you would care to.

STATEMENT OF HOWARD WAGNER, ASSOCIATE JUDGE FOR JEFFERSON COUNTY, MO.

Judge WAGNER. Thank you, Senator, for this opportunity to speak today. I am here representing Jefferson County, Mo.; Crawford County, Mo.; Washington County, Mo.; and Franklin County, Mo.

I apologize for State Representative Nilges for his not being able to be here today. I would like to start this out by reading his testimony.

Mr. Chairman and distinguished members of this committee, my name is Al Nilges and I am the Missouri State Representative representing parts of Franklin, Crawford and Washington Counties, in which the Meramec Project is located.

I appreciate very much this opportunity and would have appeared in person, however, the Governor of the State of Missouri is signing four bills that I sponsored during this session of the General Assembly on Friday, July 24, at 10 a.m., and for this reason it was impossible for me to appear before you in person.

I am asking for your support in not deauthorizing the Meramec Lake Project in Missouri, but would ask that the committee support a study on a scaled-down Meramec Park Lake. This is a new concept that is a compromise with those who have had serious concerns over losses of certain environmental values. This would save Huzzah, Courtois and Onandaga Cave, improve water supplies, control floods and provide hydroelectric power.

I feel strongly about this and you have to understand that I, as a representative of District 126, am responsible for the protection and proper development and economic values of the district I represent.

We are seriously concerned about the water supply in the Meramec Basin. Water supply is becoming more critical each day and we need to do something now to provide for adequate water supply in the future. It seems government only acts when there is a crisis and then we tend to overact or do nothing. This water would not only be used for consumption purposes, but with the development of a smaller Meramec Park Lake Project we would have water to entice industry to our area and ensure our future economic growth. Because increasing rural development is now lowering the regional water table, some type of reservoir for water supply is needed in the area. In addition, this project would control flooding in the lower Meramec River Region.

We have been informed that Senator Danforth says water supply is not the issue in the district I represent and I would like to advise the committee that I take very strong exception to that, as does Dr. Paul Munger, who is the director of the Institute of River Studies at Rolla, Missouri. He has identified in a recent study several areas of water concern in the immediate and near future.

In a letter from Senator Danforth he advised me he believes there is a less costly and more effective ways of addressing water problems than a dam and reservoir, however over the years, he has not come up with a feasible solution.

Although I have high regard for Senator Danforth and Senator Eagleton, they are just not as close to the area as I am and I feel they are not aware of the total situation in regard to the water problems.

The problems of water supply have not disappeared although we have had some rain this summer—in fact, those needs are rapidly developing into a serious problem for the area. Here in Missouri we are accustomed to an annual precipitation of more than three feet of water, however last year, only about 18 inches had been received.

There was a total of approximately $950,000 allocated under the Federal Drought Relief Program which paid up to as much as 80 percent of the cost of drilling new wells and deepening old ones for farmers last year and that amount was gone within a matter of weeks.

It has been reported that the water tables in parts of Missouri have dropped steadily since the mid 1950s and the water tables are falling across Missouri and may continue to do so for some time.

Underground water supplies in many areas have dropped to record lows, leaving pumps in shallow private wells gulping air instead of pumping water.

The City of Sullivan, which is located in the district I represent, has had serious water problems for many, many years. They have a total of nine wells of which one-half or less are producing in full capacity and the remainder of the wells have been pumping sand, causing a serious problem for the City of Sullivan, not only for water consumption, but also for industry in the area and without some type of additional water supply, they are limited to enticing additional industry to the area and to their future economic growth. The City of Sullivan is only a few miles from this proposed project.

The City of Sullivan is located approximately 60 miles west of St. Louis on I44, which is in Franklin County, which borders Jefferson County, and Jefferson County has an even more serious water problem, as the study made by Dr. Paul Munger, director of the Institute of River Studies, indicated in his report—I am sure you have a copy of this report, but which has not been updated for over two years.

I understand there is included in the bill further development of the Meramec River as to extra access points. Gentlemen, I would like to inform you that the Meramec River is now overcrowded and the Federal Government at the present time is trying to limit the number of people and access points on the Current River which is located in the State of Missouri. It just doesn't make any sense to develop the Meramec River any further in its present stage without additional water supply.

If the Meramec Park Lake Project is deauthorized, I would suggest an amendment that would give the Governor and the General Assembly of the State of Missouri final approval of the deauthorization plan because of the cost and ramifications to the State of Missouri.

Gentlemen, again I certainly appreciate your time and patience and I would ask you to please help us remove this stigma of "A Crime Against Mother Nature" by your support. I know in my heart that it would be good for all of us—now and in the future. Without a proper mix of social and conservation values, the future will have neither. Thank you.

That is State Representative Nilges's statement.

And, sir, I would like to go on the record to say that I have numerous letters from mayors. I have a letter of support from the county clerk of Crawford County, William L. Pinnell; also from Highway 67 Business Association in Jefferson County; also the city of Sullivan, Mayor Strauser; also the city of Steelville, Norman B. Cape, mayor; the city of Potosi, P. Russell Dessieux, mayor; village of Leasburg, Lee Housemann, mayor; the city of De Soto, Clifford C. Day, mayor; the city of Cuba, Carl Hunt, mayor,

I would like to say, that I am an elected official in Jefferson County, where I am a county court judge. I represent over 74,000 voters. My county is just south of St. Louis County, Mo., and borders along the west bank of the Mississippi River.

The people of Jefferson County are facing a potential water shortage, or more accurately a water crisis. This crisis is not a generation away—it is not even years away—it is here now, right around the corner.

It is a documented fact that our water table is dropping. It is not feasible to obtain water from the Mississippi River. The weather is unpredictable—a drought last year, and sufficient rainfall this year. Demand for water is growing; both industrial as well as residential, and this demand will shortly outrun supply.

We need the proposed Meramec Dam not only for growth, but for our survival. People cannot live without water to drink, cook, and bathe with. The Meramec Dam issue goes beyond considerations of economic and residential growth. Continued planning for and construction of the dam and the water resources it will provide will preserve our standard of living.

Please, as I speak for myself as well as for my constituents, we need your support to continue funding of future efforts to make the Meramec Dam a reality.

Thank you.

[Attachments to Judge Wagner's statement follow:]

RALPH LIVESAY, Steelville
JUDGE FIRST DIST.

B. L. HALBERT, Steelville
PRESIDING JUDGE

JUNIOR L. SIMMERLY, Bourbon
JUDGE SECOND DIST.

Wm. L. Pinnell
COUNTY CLERK CRAWFORD COUNTY, MISSOURI
STEELVILLE, MISSOURI 65565

JANET EDGAR
DEPUTY

VIOLET SANDERS
VOTER REGISTRATION, CLERK

July 22, 1981

To Whom It May Concern:

The Crawford County Court is concerned about the future of the Meramec Basin and especially concerned about that portion in Crawford County. We are concerned about how it will effect the tax basis and about how it will effect the other residents of Crawford County as well as, tourist and visitors in our area. We are concerned about the economics of the area, we are concerned about the wildlife, the fish, and the use of the river. We are especially concerned about water and energy. Most of the residents of Crawford County use well water, we are concerned about what would happen should the water become contaminated or if there should be a shortage.

Much of what we have today in the way of roads, energy, and facilities are the results of sound planning for future use of the past. It is our desire that we today use sound planning for future use of what we have, and it is our desire that a thorough study be made of all of the possibilities of the use of the Meramec Basin, but that a special study be made in respect to the use of the Meramec River for the purpose of providing a source of water that could possibly be used for a water supply, energy supply, and for any other purposes which might serve the residents of Crawford County and that whatever decision is made that the needs and wishes of Crawford County be a primary concern.

Very truly yours,

B.L. Halbert

B.L. Halbert
Presiding Judge
County Court

December 26, 1930

Mr. Lary Heath, President
Meramec Basin Association
P. O. Box 373
Ballwin, Missouri, 63011

Dear Mr. Heath:

At a recent regular meeting of the 67 Highway Business Association the membership voted unanimously to endorse and encourage the projects of the Meramec Basin Association. As President Pro-tem of that organization I am authorized to announce their endorsement to you and pledge our support in ways possible.

I have long been a resident of Jefferson County and am a civic leader in this area. I recognize that if Jefferson County is to continue with its' present rate of growth impounded water on the Meramec and Big Rivers will become an absolute necessity for residential as well as industrial demands. It is the opinion of the members of the 67 Highway Business Association that impounded water on these rivers will be extremely important in generating electricity for the needs of this area. Further, in recognition of present high fuel costs, countless miles and dollars would be saved for the residents of the metropolitan St. Louis region if flat water recreation were provided by impoundments on the Meramec and Big Rivers.

I strongly urge your continued efforts in behalf of these projects.

Respectfully,

Earnest Allen

Earnest Allen, President Pro-tem
67 Highway Business Association

CITY OF SULLIVAN
"A COMMUNITY OF STEADY DEVELOPEMENT"
210 WEST WASHINGTON
SULLIVAN, MISSOURI 63080
AREA CODE 314
468-4612

December 16, 1980

Larry Heath
P. O. Box 373
Baldwin, Mo. 63011

Dear Mr. Heath:

The City of Sullivan, Missouri is very interested in the construction of the Meramec Dam.

We have adequate water for our current needs but we do not have capacity for any major water user expansion and in view of our limited supply we are not actively soliciting any high volume water user.

This may have an adverse effect on our future growth as an industrial community, Therefore, we support the proposed construction of Meramec Dam at Meramec State Park near Sullivan, Missouri.

Very truly yours,

Charles D Strauser
Charles D. Strauser, Mayor

CITY OF STEELVILLE MISSOURI

COUNCIL MEETINGS
1ST & 3RD MONDAYS

CRAWFORD COUNTY

CITY OFFICE
PHONE 775-2815

NORMAN B. CAPE, MAYOR

CITY CLERK - JANE L. POUNDS
CITY COLLECTOR - JANE L. POUNDS
MUNICIPAL JUDGE - RALPH SOUDERS
CITY MARSHAL - FRANCIS A. WYNN

WE
INVITE
INDUSTRY

CITY SUPERINTENDENT - JAMES A. TAYLOR

WILLIAM SPURGEON ALDERMAN
LATHAM SCHWIEDER ALDERMAN
LLOYD ROBERTS ALDERMAN
NINA A. GREIG ALDERMAN

December 15, 1980

Mr. Larry Heath, Chairman
Meramec Basin Association
P. O. Box 373
Balwin, Missouri 63011

Dear Mr. Heath,

It is the understanding of this city council that the Meramec Dam proposal is in full swing again with a lower dam and possible energy compromise. Since this proposal would eliminate most of the environmental issues presented by the opposition at the time of the referendum as well as improve the general economic condition of the area effected and provide some local power and recreational expansion, it is our desire to go on record as supporting your organization in the efforts to stop deauthorization by congress and wish to see this project completed.

There also, in our opinion, seems to be a need for a water conservation district in conjunction with this project and we would like to take this opportunity to encourage your organization to include this in your overall plan.

If we can be helpful to you as the project advances please feel free to contact us.

Sincerely,

Norman B. Cape

Norman B. Cape, Mayor
City of Steelville, Missouri

Steelville Telephone Exchange, Inc. Independently Owned

775-2111
William R. Kehr, Mgr.
Steelville, Missouri 65565
P.O. Box 370

OFFICERS:
W. H. LEA, PRES.
JOSEPH W. CUSHING, VICE-PRES.
R. F. JONAS, SEC'Y.
L. J. PERKINS, TREAS.
C. C. BECKHAM, ATTORNEY

DIRECTORS:
R. F. JONAS, STEELVILLE 1972
RODNEY JOHNSON, HUZZAH 1969
W. H. LEA, STEELVILLE 1961
JAMES D. COTTRELL, DILLARD 1975
JOS. W. CUSHING, STEELVILLE 1967
L. J. PERKINS, STEELVILLE 1952
A. G. KEHNER, DAVISVILLE 1973
W. H. BARNICLE, STEELVILLE 1968
FLOY M. BRAND, COOK STATION 1970

March 5, 1981

Meramec Basin Association
P O box 373
Ballwin, Missouri 63011

Gentlemen:

At the regular monthly meeting in February, the Board of Directors of Steelville Telephone Exchange, Inc. passed a resolution supporting the proposed re-study of the Meramec Lake project provided that the study shall include a careful look at the feasibility of power generation through the use of low head water driven turbines, or other suitable technology.

The Telephone Company has consistantly supported activities and enterprises leading toward growth of the area and prosperity of its customers. In the early 1970's loans in excess of $1 million were secured through the Rural Electrification Administration to provide modern storm-proof private line telephone service. The system was engineered and installed with provisions for the Meramec Lake.

With technology now available to provide low cost power generation the Board believes it is in the best interests of the company's customers that the project be re-studied.

Very truly yours,

STEELVILLE TELEPHONE EXCH. INC.

W. R. Kehr

W. R. Kehr, Manager
for the
Board of Directors

CITY OF POTOSI
501 East High Street
Potosi, Missouri
63664

MAYOR
P. Russell Dessieux

ALDERMEN
Robert "Bobby" Reed
Billy Dickey

CITY CLERK
Stephen G. Cresswell

ALDERMEN
Roger Bilderback
Earl Yount

December 22, 1980

Larry Heath, Chairman of Board
Meramec Basin Assoc.
P.O. Box 373
Ballwin, Mo. 63011

Dear Sir,

I would like to go on record of supporting the proposed new study of a smaller Meramec Park Lake to include all the former benefits of flood control, water supply, water quality control and recreation.

In addition a study should be made on the feasibility of hydro-electric generation. Due to the rising cost of electric power generation useing the fossil fuels, hydro-electric power is becoming more attractive.

In my opinion a smaller lake will meet with less opposition since it will not flood Onandaga Cave. Since approximately thirty million has already been spent on this project every attempt should be made to keep the project alive.

Sincerely,

P Russell Dessieux

P. Russell Dessieux
Mayor of Potosi

Village of Leasburg
LEASBURG, MISSOURI 65535

December 12, 1980

Meramec Basin Associtioh
P. O. Box 373
Ballwin, Missouri 63011

Attention: Mr. Larry Heath

Dear Mr. Heath,

We the people of the Village of Leasburg are asking if you would be so kind as to pass the following concerns regarding the Proposed Meramec Dam Project, to our elected officials, Govenor Bond, Senator Eagleton, Senator Danforth, and Congressman Bailey.

There is much concern about the need for added water supply in the very near future if our area is to continue its growing trend.

Regarding electricity, the electricity to be generated by a proposed power plant would be extremely beneficial not only as an electrical supply but as a source of employment, which is so desparately needed in this area.

Unemployment is a major problem in the area of the Proposed Meramec Dam and Park Lake.

The people feel the Meramec Dam Project should be carefully reviewed and a study be made with respect to the needs of the people directly involved. Our opinion is the referendum was not fair or a true verdict of the people inasmuch as the people of St. Charles county and St. Louis City and County did not know what it really meant to the people of our area.

The "Anti-Dam" groups should also be advised of the revised proposal eliminating the three major points of opposition to the construction of the dam.

The need for recreational facilities close to the St. Louis area should also be considered.

We would appreciate it greatly if you could pass along our concerns to our elected officials regarding these matters. Thanking you in advance, we remain

Sincerely yours,
LEASBURG CITY COUNCIL
Lee Hausman /
Lee Housemann, Mayor

jec

CITY OF DE SOTO

A Council-Manager City

CITY HALL — 413 SOUTH SECOND DE SOTO, MISSOURI 63020 — AC314 - 586-3326

December 26, 1980

Mr. Lary Heath, President
Meramec Basin Association
P. O. Box 373
Ballwin, Missouri 63011

Dear Mr. Heath:

As Mayor of the City of De Soto, Missouri, I strongly urge continued construction of the Meramec Basin Projects. As a community and civic leader for a number of years I am keenly aware of the potential value of these impoundments, especially on the Meramec and Pine Ford dam on the Big River.

The future growth of Jefferson County will depend largely on impoundments for water supply for residential and industrial growth. Further, in the present energy situation these impoundments would be extremely beneficial as a source for electric power in addition to their recreational benefits for the entire St. Louis Metropolitan Area.

The City of De Soto has long supported the Meramec Basin Projects. As Mayor I continue to do so in behalf of our residents.

Respectfully,

Clifford C. Day

Clifford C. Day
Mayor

City of Cuba, Missouri

CARL HUNT
MAYOR

CITY HALL
112 N. SMITH STREET
CUBA, MISSOURI 65453
(314) 885-7432

December 23, 1980

Mr. Larry Heath
Chairman of the Board
Meramec Basin Association
559 Happy Court
St. Louis, Missouri

Dear Larry:

I am most happy to write this if it will be of any help in reactivating the Meramec Lake Project. Of course, in my opinion it should never have been stopped. If ever there was a time that we needed a public works program such as this was designated to be years ago, it certainly is now. When I think of the millions of dollars that were wasted it really upsets me, but having been in politics a long time, this must be the acceptable way to some of them.

I hope we can depend on Congressman-elect Bailey to help us as Dick Ichord did in years gone by. Maybe even President-elect Reagan can give us some help on this project also. I certainly hope so.

If I can be of additional help or furnish any other information that you feel would be helpful, I would be most happy to supply it.

Sincerely yours,

Carl Hunt

Carl Hunt
Mayor

CH:ds

THE COUNTY COURT OF JEFFERSON COUNTY
RALPH KRODINGER, PRESIDING JUDGE
Phone 789-3911 — 942-4300
HILLSBORO, MISSOURI
63050

ASSOCIATE JUDGE, FIRST DISTRICT:
ELIZABETH FAULKENBERRY

ASSOCIATE JUDGE, SECOND DISTRICT:
HOWARD WAGNER

July 23, 1981

Members of the U.S. House of Representatives

Honorable Members:

In behalf of the citizens in the Meramec Basin area and especially the electorate whom we represent in Jefferson County, we strongly urge your opposition to legislation that would de-authorize Meramec Park Lake. Such legislation is ill-advised and not in the best interest of the citizens of this basin area.

A serious need is presently felt for adequate water for the industrial and residential demands of the Meramec Basin as it continues to grow, having become one of the fastest growing areas in Missouri.

We urge that in lieu of such drastic and premature legislation that studies of the water needs of this rapidly growing area be continued.

Respectfully,

Ralph Krodinger
Ralph Krodinger, Presiding Judge

Elizabeth Faulkenberry
Elizabeth Faulkenberry
Associate Judge, First District

Howard Wagner
Howard Wagner
Associate Judge, Second District

COURT ORDER

STATE OF MISSOURI }
County of Franklin } ss.

MAY Term, 19 81

In the County Court of said County, on the 23rd day of July, 1981, the following among other proceedings, were had, viz.:

IN THE MATTER OF FRANKLIN COUNTY
COURT OPPOSING DEAUTHORIZATION
OF MERAMEC PARK LAKE

WHEREAS, the Franklin County Court has in the past supported the Meramec Park Lake Project as a viable water resource, and

WHEREAS, several communities in southern and southwestern Franklin County are experiencing difficulties and severe problems with water wells due to declining water table, and

WHEREAS, aquifers are not being replenished as rapidly as depleted due to accelerated growth and water usage, and

WHEREAS, the November 1978 non-binding referendum was not representative of the water supply problem in the general area of Meramec Park Lake nor in our opinion representative of water supply problems of the entire Midwest, and

WHEREAS, the Franklin County Court has met several times with the County Courts of Crawford, Jefferson and Washington Counties to discuss these problems and sponsor a Public Forum on Water Supply in the Meramec Basin Area, and

WHEREAS, the Franklin County Court is supportive of the legislation introduced in the Missouri House of Representatives to establish a Water Conservancy District surrounding the general area of Meramec Park Lake,

NOW BE IT THEREFORE resolved that the Franklin County Court does oppose deauthorization of Meramec Park Lake and urge that all efforts be put forth to study and recognize the Water Supply Problems as they now exist and as future growth will demand and we further urge all efforts be put forth to construct and control Meramec Park Lake in an aesthetic and environmental acceptable manner.

Presiding Judge.

Judge of 1st District

A. Buck Hoff
Judge of 2nd District.

Senator ABDNOR. Thank you, Judge Wagner.

You have some impressive testimony there from the various towns and cities in the area. The biggest point you are making is that added water supply is needed for this area.

Judge WAGNER. Yes, sir.

Senator ABDNOR. It seems strange to me that Mr. Lafser, who is the director of the Missouri Department of Natural Resources, didn't have quite the same concern.

Is there some other possible solution other than this project? Are wells available? Is there any other way to supply water for domestic use? I am talking about the needed water for the towns and cities.

Judge WAGNER. Jefferson County has about 11 water districts located within the county. In our northern part of the county, which touches St. Louis County, the Meramec River, the water table there has dropped within the past several years.

I know for a fact that the people of Jefferson County and the village of Leasburg have ample supply. The only thing our water districts do is keep drilling wells. We have no backup. We have the Mississippi River, but everyone is aware the Mississippi River is polluted. We would need a treatment station to treat the water going out of the Mississippi. And also with our geology in the State of Missouri, especially in Jefferson County, is rock and there is no way to cut to carry the water from the Mississippi across our county. Our county is 67 square miles. There is no way to supply water through the Mississippi.

Senator ABDNOR. You submitted statements from the various cities; I assume they all participated in the vote that was taken about 3 years ago that was referred to here by both Senators. Why would it be they turn down the project 2 to 1?

Judge WAGNER. I really can't answer that question, but I think basically that the people were confused with the issue, sir.

Senator ABDNOR. They all should be concerned about the water. Do you think they would take a lesser project?

Judge WAGNER. Yes, I do. As we said and as our Representative Nilges said in his statement, we would settle for a scaled-down Meramec Basin.

Senator ABDNOR. Would some of this water supply be used for St. Louis? Does the city of St. Louis have sufficient water?

Judge WAGNER. I am not familiar with the St. Louis area that well, but I know this water supply would serve these four counties.

Senator ABDNOR. How far would St. Louis be from the dam?

Judge WAGNER. About 60 miles north.

Senator ABDNOR. How many people in the immediate area of the dam on the map would you get? That is an unfair question.

Judge WAGNER. It really is.

Senator ABDNOR. What is the biggest city you are talking about that you have statements of?

Judge WAGNER. These are rather small cities. The city of Cuba they didn't give me the population of that town. I know the city of De Soto, which is in Jefferson County, Mo., is about 7,000; the city of Arnold in Jefferson County, Mo., is a city of 25,000; Crystal City in Jefferson County and Festus, those cities consist of about 25,000;

the city of Hillsboro in Jefferson County, you are looking at about 7,000.

We have about 150,000 population in our county. I cannot speak as far as the residents of any of the nearby cities.

Senator **Abdnor**. Thank you.

That is a pretty good size city in my State.

Judge **Wagner**. We are a very growing county and we do need this water resource.

Senator **Abdnor**. Thank you. We appreciate your coming all the way in today to testify, and we will put your entire statement in the record.

It was pointed out to me by staff that the Federal Government doesn't build single-purpose projects, you would have to repay the cost. We are talking about a scaled-down version for the water and that would make it a single-purpose project that the Federal Government has a scale for repayment for the cost.

I was wondering if you were aware of that.

Judge **Wagner**. No, I wasn't.

Senator **Abdnor**. That is something you might want to take into consideration.

We appreciate your coming today. I know it took a real effort on your part and you tell Mr. Nilges that his statement was read by you and it will be placed in the record.

Judge **Wagner**. Thank you.

Senator **Abdnor**. I believe that concludes our witnesses for today and the record will remain open for the next 2 weeks and I urge anyone who would care to submit statement to do so.

The meeting is adjourned.

[Whereupon, at 10:45, the subcommittee recessed, to reconvene subject to the call of the Chair.]

[Statements supplied for the record and the bill S. 1493 follow:]

Statement of Richard G. Lugar
Before the Water Resources Subcommittee
Environment and Public Works Committee
United States Senate
July 24, 1981

I am most grateful to Chairman Abdnor for scheduling this hearing and for the opportunity to submit a statement in support of the deauthorization of three dams whose sites are located in Indiana; Clifty Creek and Dam, Lafayette Dam and Reservoir, and Big Blue Dam and Reservoir.

During each of the last three Congresses, I have introduced legislation directing the deauthorization of these projects. I have done so with the firm belief that, while these projects may have been viable at one time, they have since lost any meaningful value and are now only a thorn in the side of most Hoosiers.

One need go no further than an analysis of cost to find a strong reason for deauthorization. Soaring construction costs have rendered these undertakings economically impractical. The Army Corps of Engineers estimates that their cost projections have escalated 12 to 15% a year since January 1977. At that time, Lafayette was estimated to cost $111 million, Clifty Creek $36 million and Big Blue $115 million. Under the best of economic circumstances, these projected increases would be cause for careful review but in the face of the present economic situation, I think it calls for an immediate decision that no taxpayer dollars are to be set aside for these projects. My own careful inspection of the plans has convinced me that the tremendous increase in cost has not been matched by a mitigating increase in benefits. Indeed, there is some reason to believe that the value of these benefits has already been overestimated. Many people, for example, have attacked Lafayette Lake for the fact that it offers no water supply benefits. Clifty Creek, too, has been criticized because it must sacrifice much of its flood control value if it is to provide any increased water supply at all. And the need for an additional water supply from Big Blue has been questioned since the two counties which it serves already contain more than adequate underground water.

Others have alleged that flood control benefits have been greatly exaggerated. The fact that each of these areas could sustain the cost of a serious flood many times over before approaching the cost of the project, lends credence to this claim.

Finally, the suggestion that these dams would bring with them an increased recreational value is balanced by the view that they will also bring the sacrifice of precious farmland, the displacement of many families and irrevocable damage to the environment.

These comments aside, the most compelling reason for deauthorizing the projects is that the people of Indiana have spoken out against them, levelling harsh criticisms which have been reflected in the actions of the state legislature. As early as 1977, in what was a precedent-setting action, the

Governor's office joined with the state legislature to offer its strong disapproval of these dams. At present, neither the state legislature, the Army Corps of Engineers, the Governor's office nor the Department of Natural Resources has offered an endorsement of the projects.

The people of Indiana, working through their elected state officials, have unmistakably rejected these projects. Indiana citizens have made it clear that although these projects may once have been cost-effective and well-advised, they do not now want their state to participate in them. It seems reasonable therefore, that the Congress should follow the action taken by both Republicans and Democrats in Indiana elective offices and deauthorize the projects on the Federal level.

The deauthorization of these projects would put them to rest permanently and would remove the cloud of uncertainty which hangs over those people owning land near or adjacent to these projects. The financial and civic affairs of these citizens have been disrupted for too long and it is time that a final decision is made to cancel these projects.

I respectfully urge that the Committee swiftly approve deauthorizing legislation. Again, I commend the Subcommittee for conducting this hearing and for the opportunity to submit these comments.

WILLIAM V. ROTH, JR., DEL., CHAIRMAN
CHARLES H. PERCY, ILL.
TED STEVENS, ALASKA
CHARLES McC. MATHIAS, JR., MD.
JOHN C. DANFORTH, MO.
WILLIAM S. COHEN, MAINE
DAVID DURENBERGER, MINN.
MACK MATTINGLY, GA.
WARREN B. RUDMAN, N.H.
THOMAS F. EAGLETON, MO.
HENRY M. JACKSON, WASH.
LAWTON CHILES, FLA.
SAM NUNN, GA.
JOHN GLENN, OHIO
JIM SASSER, TENN.
DAVID PRYOR, ARK.
CARL LEVIN, MICH.
JOAN M. McENTEE, STAFF DIRECTOR

United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, D.C. 20510

July 23, 1981

Honorable Robert T. Stafford
Chairman
Environment and Public Works Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I wish to take this opportunity to express my support for the deauthorization of three Illinois water projects.

The Illinois projects are:

1. The Duplicate Locks navigation project on the Illinois Waterway. Illinois and Indiana, authorized by section 101 of the River and Harbor Act of 1962 (P.L. 87-874.)

Since 1962, when this project was first authorized, the Corps has spent close to $2,265,000 on advanced engineering and design work. The estimated completion cost today is approximately one billion dollars. Congress deleted the project from the Corps' budget after 1976 when the State of Illinois declined to provide written assurances of local cooperation. In the absence of such support, there have been no further appropriations, however, the project remains on the books. As long as it remains authorized, it will effectively stymie other projects and development in the area.

2. Lincoln Dam and Reservoir, Wabash River, Illinois, authorized by section 204 of the Flood Control Act of 1965 (79 Stat. 1081).

This project was authorized in 1965 and last funded in 1972. Estimated completion cost today would be more than $130 million. The proposed Lincoln Reservoir would take thousands of acres of land and displace many families. Again, a local project, in the City of Charleston, Illinois, to develop water supplies, is being held up pending dispostion of this matter.

3. Helm Lake, Skillet Fork of the Little Wabash River, Illinois, authorized by section 203 of the Flood Control Act of 1968 (83 Stat. 742-743).

The Helm Lake project was originally authorized in 1968 and last funded in 1974. The estimated total cost is listed at $32.9 million. This again is a case of non-existent local and state support for the project. Deauthorization would preserve valuable farmland and wildlife habitats, and allow local alternative planning.

I would appreciate action to deauthorize these three Illinois projects.

Honorable Robert T. Stafford
Page 2

There seems to be little economic justification for keeping them on the books any longer. Certainly in some cases the cost-benefit ratio itself is enough to justify deauthorization. This fact, coupled with an almost complete lack of community support, is more than adequate grounds for ending these projects.

Warm personal regards,

Charles H. Percy

Charles H. Percy
United States Senator

CHP:bke

TESTIMONY OF FRED A. LAFSER
STATE OF MISSOURI
BEFORE THE
SUBCOMMITTEE ON WATER RESOURCES
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
JULY 24, 1981
ON S. 1493
DISPOSITION AND DEAUTHORIZATION
OF MERAMEC PARK LAKE LANDS

Mr. Chairman, thank you for affording us the opportunity to testify today. My name is Fred A. Lafser. I am Director of the of the Missouri Department of Natural Resources. Today I represent the State of Missouri through our Governor, Christopher S. Bond. We strongly support S. 1493 and urge its swift passage.

This legislation offers a rational solution to a resource controversy that has loomed for almost 50 years. In 1978, an advisory referendum was held in Eastern Missouri to resolve the future of the Meramec River. By a 2 to 1 margin, the citizens rejected the proposal for Meramec Park Lake.

In response to that mandate, S. 1493 will deauthorize the lake project. With the present costs inflating to over $200 million, this action will save the federal government nearly $200 million.

To date the Corps of Engineers has acquired approximately 28,000 acres of land for this project. We are committed to swift and fair disposition of project lands. Various interest groups and individuals have advanced a spectrum of proposals from no lands remaining for the public to all lands remaining for public use.

S. 1493 offers a conservative alternative which keeps less than one-fifth of the prime resource land in public ownership and returns the rest to private ownership with resale revenues being returned to the federal treasury.

What will remain of the project will be one of the finest stream recreation areas near a large urban complex in the country. We expect substantial local economic benefit from the tourism and recreation industry.

Furthermore, the state is willing to accept the operation and maintenance costs of the administration of these public lands. Since the lands to be retained in public ownership are located adjacent to existing facilities, these costs can be kept to a minimum.

DISPOSITION OF LANDS

The Department of Natural Resources, and the State of Missouri, are pleased to support the provisions of the bill pertaining to the disposition of properties previously acquired by the Corps of Engineers. The bill adheres to two basic principles:

1. The protection of critical natural, recreational, and cultural resources; and
2. The return of the great majority of the land back into private ownership.

The State of Missouri strongly endorses these principles. The first principle addresses the responsibility of the federal government to avoid the public loss of truly significant resources, and at the same time allows for the substantial fulfillment of several of the original project purposes, including recreation and wildlife benefits.

The second basic principle, return of most of the land to private ownership, with special preference for the original owners, not only helps to restore a much needed property tax base to Crawford County, but also ensures the restoration of the traditional family farm, regional lifestyle.

Several of the provisions reflect the results of resource studies conducted or compiled by our Department. These studies relate to three resource areas: recreation, natural history, and cultural history.

Recreation

A variety of data and sample information, confirm the rapidly growing economic and social values of recreation along the upper Meramec River. Available data demonstrate a regional need for additional canoeing opportunities and access, as well as additional hiking trails. The Meramec River is widely known as a superb canoeing stream. Becoming more widely known are the opportunities in the Ozarks for long distance trail development. An existing long distance trail under current development, the Ozark Trail, includes links both above and below the project area. The Ozark Trail was incorporated into the Corps planning for Meramec Park Lake. The bill will allow its completion.

In regard to scenic values, the topography of the project area, determines that the most prime scenic resources including spectacular bluffs, woods and wooded hills are concentrated along the corridor of the Meramec River itself.

In addition, certain strong recreational values are associated with the pre-existing units of state land. These units, including Meramec State Park, Onondaga Cave State Park and Huzzah State Wildlife Area, are major concentration points of public recreational use and possess more or less extensive developments servicing many thousands of people. Key recreational values are associated with lands directly adjacent to these state units of land. For example, the visitor center construction by the Corps of Engineers just south of Meramec State Park. The visitor center is strategically located and offers impressive panoramic views of the Meramec River Valley, particularly the Hamilton Creek Valley and the forested hills surrounding it. The center is of extremely high value as a recreation focal point for the entire project area.

Geological resources, particularly caves and springs, have been inventoried and are plotted on tne attached map. The geological resources of the project area are accurately described as of national significance. There are numerous caves of truly gigantic proportions including are: Onondaga Cave, that is a designated national natural landmark and recently has become an addition to Missouri's state park system.

As can be seen from their plotted locations, most of the caves and springs are concentrated along the corridor of the Meramec River. An outstanding example of this is Green Cave with one of the most spectacular entrances of any cave in Missouri or the Midwest. An exception to the river corridor concentration of caves in the project area is the cluster of significant caves in the tributary valley of Hamilton Hollow, where several sizeable caves with extremely attractive natural onyx formations occur along a spring fed stream valley bordered by steep forested hills.

The issue of endangered species has been addressed by the Missouri Department of Conservation. The most significant endangered species are the Indiana and Gray bats and these are also associated most directly in the project area with nursery and hibernating caves, again located primarily along streams and again with the addition of significant sites along the tributary valley of Hamilton Creek.

Cultural resources are abundant in the project area and reflect a full range of human occupations from early prehistoric to modern times. Our Department of Natural Resources - Historic Preservation Program has mapped the occurrences of known cultural sites in the project area and these are also shown on the furnished map. Probably the most significant cultural resources of the project are the remains of some of the earliest iron furnaces west of the Mississippi River. The remarkable early 19th century furnace ruins are testimony to pioneering experiments with industrial process and the utilization of raw natural resources for economic development. These ruins are also located in the valley of Hamilton Creek.

We have reviewed the proposal for disposition of lands in S 1493 in detail and are confident that the provisions of this legislation will provide excellent protection and enhancement of recreation values in the Meramec Valley through the following:

1. conservation easement along the river corridor.
2. transfer to the state of limited acreage adjacent to and in existing state recreation sites.
3. a pedestrian trail easement to link together unconnected segments of the Ozark Trail.
4. transfer to the state of three small, but key sites that will allow for better control of river access.

Natural resource values are likewise protected through several of the same provisions. The extension of Meramec State Park is particularly significant for the inclusion of the remarkable concentration of resource values in the Hamilton valley area. An added element is the provision for a limited acreage of additional lands to be transferred to the state for the protection of endangered species sites, following a finalization of existing studies.

Cultural resource values are also protected by all of the above provisions. A particular benefit of the plan is the preservation as part of Meramec State Park of the extraordinary cultural resources of the Hamilton Creek Valley.

All of the above resource objectives are met while still allowing for more than four-fifths of the existing federal property to return to private ownership and resume a productive role in the social and economic life of the region.

The State of Missouri congratulates the Senators of our state for their development of this carefully crafted legislation. We strongly feel that S 1493 will resolve a long standing and cruelly divisive controversy, and do so in a way that fully and successfully addresses the most ciritcal needs of the basin area.

MERAMEC
HERITAGE
RIVERWAY

TESTIMONY OF JERRY M. SUGERMAN

ON BEHALF OF THE MERAMEC HERITAGE RIVERWAY ASSOCIATION,
THE OZARK CHAPTER OF THE SIERRA CLUB, AND THE MISSOURI
FRIENDS OF THE EARTH BEFORE THE WATER RESOURCES SUBCOMMITTEE
OF THE SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS--
JULY 24, 1981

Senator James Abdnor, members of the Subcommittee:

My name is Jerry M. Sugerman. I'm from St. Louis, Missouri, and here representing the Meramec Heritage Riverway Association, the Ozark Chapter of the Sierra Club, and the Missouri Friends of the Earth, who wish for me to express their views concerning Senate bill S.1493. Our particular interest is in Section 2 thereof, which was prepared by Senators John C. Danforth and Thomas F. Eagleton of Missouri to deauthorize the Meramec Park Lake Project of the Corps of Engineers and for other purposes.

Since 1975 the Ozark Chapter of the Sierra Club has worked to develop sound, practical proposals for the ultimate disposition of project lands in anticipation of the eventual deauthorization of the Meramec Park Lake Project. This work has been carried out in collaboration with representatives of other organizations as well as landowners living in or near the project area. In 1976 a definite plan was produced, called the Meramec Heritage Riverway, and a new organization formed to work for Congressional authorization of this plan and toward the optimal use of all lands within the Meramec Valley.

We wish to express our support today for S.1493 and to suggest that certain changes be made in Section 2 in order to strengthen the bill.

BACKGROUND OF THE ISSUE

That section of the Meramec River affected by this legislation is highly favored by outdoor enthusiasts throughout Eastern Missouri. Today there are over 1700 rental canoes available in this area. A 1978-9 recreation use survey conducted by the Missouri Department of Conservation showed an annual visitor rate of 320,000 for all types of outdoor recreation. This included over 100,000 visits for canoe floating alone. Other popular activities were swimming, picnicking, camping, and fishing.

The great popularity of this river was borne out by another test as well. On August 8, 1978, voters in twelve Eastern Missouri counties plus the City of St. Louis rejected the Meramec Park Lake Project in a non-binding referendum called by Senator Eagleton and authorized by the Missouri General Assembly. The voting counties included

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essentially all of the Meramec Basin plus the principal population centers whose people visit, recreate, and invest in the Meramec Basin. 256,703 or 63% of the voters rejected the dam. Eight out of the ten non-metropolitan Meramec Basin counties rejected the dam by a 54% majority while the three metropolitan counties rejected it by 66%. Only two counties, representing only 2.4% of the total vote, supported the dam.

The attached table gives the complete county-by-county election results, and a second attachment gives an analysis of selected voter attitudes measured during the referendum campaign. We think the Subcommittee may find this information helpful as you consider the need to deauthorize the Meramec Park Lake Project.

ACTION BY MISSOURI'S SENATORS

Senators Danforth and Eagleton have remained faithful to the people of Eastern Missouri, who wish to see this project ended once and for all. We are deeply grateful to our senators and commend them for having the courage and foresight to see this issue through to the end despite continuing pressure from the pro-dam Meramec Basin Association to dam the Meramec River.

Our senators also appear to be pointed in the right direction insofar as their measures to settle the land disposition problem are concerned. Their guiding principles are correct--

1) The public should retain a high degree of control over portions of the land in order to protect important natural, scenic, and cultural features in the area.

2) Portions of these lands must remain in public ownership in order to provide improved public access to the area and to better manage the enormous user loads.

3) Former landowners should be given first option to reacquire their former holdings within those areas not reserved for future public use.

We concur in these objectives; however, we recommend that a fourth objective be added to foster and encourage continuing agri-business in the area.

To achieve their objectives, Senators Danforth and Eagleton have proposed that one fifth of the land (5,122 acres) be reserved for the State of Missouri in accordance with a plan worked out in consultation with State officials. We recommend that two fifths of the land be reserved, including the section of river extending from Vilander Bluffs to Carter Creek Hollow inclusively.

The senators have also proposed that the State maintain a scenic easement over land which is returned to the private sector, but that these easements shall not extend farther than one fourth mile from the river bank. We recommend that the one fourth mile limit be dropped and replaced by a provision allowing for easements to extend up to the line of site or horizen as viewed from the river or other points of major public interest.

The senators have also proposed that all lands not reserved for the State be sold back to the private sector with first option granted to former landowners for a period of one year following enactment of this legislation. We recommend that former landowners be granted a five year option to buy land or to lease it indefinitely. We believe this lease-in-lieu-of-purchase option is an important and necessary mechanism to improve the prospects for more economical farm operations in the area.

RECOMMENDED CHANGES

In summary, we urge the Subcommittee to make four modifications to the land disposition plan--

1) Increase the amount of land to be deeded to the State of Missouri by approximately 5,000 acres with lands selected from the Vilander Bluffs/Carter Creek section.

2) Eliminate the one fourth mile upper limit on the extent of scenic easements, and replace it with a limit functionally defined by the line of site from the river or other key points of public interest.

3) Replace the language which gives first option to buy to former landowners with language which gives former landowners a five year option to lease indefinitely or buy.

4) Designate either the State of Missouri or Crawford County as the leasing agent.

The following sections analyze the need for these modifications in greater detail.

A. Vilander Bluffs/Carter Creek Section

Under S.1493 none of the land located between Greens Bluff, near Meramec State Park, and Onondaga Cave State Park, a distance of 15 river miles, would be deeded to the State. All of it would be sold back to the private sector with the State retaining only a narrow scenic easement. Yet, this section encompasses the most important land in the area. It includes

1) the spectacular Vilander Bluffs, located on a great horseshoe bend of the river;

2) Carter Creek Hollow, the best potential future park site remaining in the area;

3) Lower Brazil Creek, a crystal clear stream which flows through a picturesque valley criss-crossed with horse trails;

4) Crows Creek Hollow, a still essentially wild place;

5) High quality pastureland nestled within the steep, heavily wooded interconnecting terrain; and

6) the heaviest concentration of caves anywhere on the Meramec.

This section should be included among the lands reserved for the State. We believe that most of the former landowners within the Vilander Bluffs/Carter Creek section have no interest in reacquiring their former holdings.

B. Scenic Easements

S.1493 proposes to protect lands not deeded to the State by retaining a narrow strip of scenic easements along either side of the river. Easement boundaries would not be allowed to extend farther than one fourth mile from the bank of the river. This formula presents two problems.

i) application of easements

Because much of the land is steep, heavily wooded terrain, it cannot be farmed; but it also cannot offer economic returns to the private investor unless it is developed. Insofar as scenic easements would prevent land development, no private investor would choose to purchase such lands unless required to do so in order to obtain adjoining developable tracts. Why would private investors want to invest in land which is useless to them unless this were the only way to acquire access to some other place? In such cases the private investor should be offered only those portions which can be developed or which have alternate economic value, and the remainder should be left in public ownership. This formula would offer greater economies to the investor and also allow greater public control over land which essentially has no utility except for public purposes.

Agricultural productivity of farmland, on the other hand, is not affected by scenic easements so long as normal farming practices are allowed, as they would be under S.1493. Such easements do not allow any public use or trespass on the land, but merely prevent the type of development which becomes a public nuisance.

Easements should be used selectively. They should be limited to land whose agricultural uses would not be impaired by them. S.1493, on the other hand, applies easements indiscriminately both to land whose economic productivity would be undermined as well as land whose productivity would be unaffected by them. It is for this reason that we recommend so much of the Vilander Bluffs/Carter Creek section be retained in public ownership while easements be relied upon to protect most of the agricultural land.

ii) extent of easements

A quarter mile boundary limit is unreasonably restrictive on the effective application of easements. Although a quarter mile does adequately encompass the line of site from the river in most places, in many others the line of site extends much farther than one quarter mile. These latter places are for the most part farm sets whose agricultural productivity would not be impaired by the easements. For these reasons, the quarter mile limit should be dropped from the bill and the easement boundaries more rationally drawn along the line of site or horizen as viewed from the river or other key points of public interest.

C. Leasing in Lieu of Purchase

In order for farm units to remain economically viable, they must combine several varieties of terrain to produce a balanced land base. Historical farm boundaries in many cases do not contain that balance. Consequently, today's farmer is faced with the need to augment his land base either by leasing selected farm properties from time to time or else by enlarging his fee simple holdings. The economics of full time farming is such that farmers need the option to buy or lease property in order to maximize their ability to stay in business. The bill should offer that option to farmers. This version does not.

D. Land Pricing

Finally, there is the issue of land sale prices. Under S.1493 massive land speculation is likely to move into the area because of a provision that all lands not deeded to the State be offered for sale to previous landowners at the price the Corps of Engineers paid or the current market value, whichever is less. Because most of the land was purchased by the Corps of Engineers between 1968 and the mid-'70's, land would be sold back to the previous owners at approximately ten year old prices.

Land syndicates would simply put up former landowners as straw parties and buy up all the developable land. Bidding among the syndicates would be for the price of straw parties, not the price of land. It is because the easement provisions in S.1493 leave so much developable land unprotected that land speculators would move in to take advantage of the archaic land prices.

Certainly the bill should make it easy for former landowners to reacquire their former holdings, but only for those lands which can be properly protected by scenic easements or which are beyond the line of site from the river. This would leave ample development opportunities on lands adjoining the public use areas. The bill could easily be crafted in such a way as to create nodes of recreational activity, which would generate development opportunities. In fact, the very existence of a fully protected river would enhance the opportunities for attracting visitors throughout the greater region. This is another reason why we recommend reserving Carter Creek Hollow for future public use.

In conclusion, I wish to say we believe the modifications recommended here would strengthen Senate bill S.1493. As currently written, this bill provides too limited means for achieving land preservation objectives and fails to deal in the fairest practical manner with agricultural interests. These shortcomings should be corrected before the bill moves out of committee.

The Meramec Heritage Riverway Association, the Ozark Chapter of the Sierra Club, and the Missouri Friends of the Earth appreciate this opportunity to present their views.

Thank you very much.

meramec river campaign

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FINAL MERAMEC DAM VOTE

AUGUST 8, 1978

?

COUNTY	YES	NO	% NO	% OF TOTAL VOTE
MERAMEC BASIN COUNTIES VOTING AGAINST THE DAM				
Gasconade	750	2,726	78	0.9
Maries	585	1,287	69	0.5
Dent	1,492	2,404	62	1.0
Iron	1,154	1,631	59	0.7
St. Francois	3,492	4,868	58	2.1
Phelps	3,510	3,774	52	1.8
Franklin	7,721	7,799	50.3	3.8
Jefferson	13,180	13,227	50.1	6.6
	31,884	37,716	54	17.3
MERAMEC BASIN COUNTIES VOTING FOR THE DAM				
Washington	2,262	1,770	44	1.0
Crawford	3,182	2,438	43	1.4
	5,444	4,208	44	2.4
METROPOLITAN COUNTIES				
St. Charles	7,707	15,680	67	5.8
City of St. Louis	21,900	44,014	67	16.3
St. Louis	81,143	155,085	66	58.4
	110,750	214,779	66	80.4
TOTAL VOTE	148,078	256,703	63	100.0

meramec river campaign

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January 8, 1979

ST. LOUIS AREA VOTER ATTITUDES ABOUT THE MERAMEC RIVER

This memorandum summarizes recent survey information concerning St. Louis area voter attitudes about the preservation of the Meramec River. This information applies to the Meramec River generally and more specifically to the upper Meramec. It cannot be assumed that these attitudes are transferrable to the lower Meramec as an isolated river segment.

The rejection of Meramec Dam by registered voters in St. Louis City and County last August was due primarily to their concern over the loss of natural stream resources, not to the expenditure of tax money. This fact was ascertained from an extensive survey of public opinion conducted by the Meramec River Campaign organization in May and June of last year.

Following the August 8th referendum some observers interpreted the vote as an expression of tax rebellion. They assumed that California's Proposition 13 mentality applied to the Meramec Dam voters and determined the outcome of the election. To the contrary, however, pre-election survey information showed that tax rebellion had little to do with voter behavior in this referendum. The loss of natural stream resources dominated the list of reasons why voters felt the dam should not be built. The tax issue ran a poor third behind loss of natural amenities and displacement of farmers in a test of spontaneous best reasons why the dam should not be built.

Registered voters were asked first to state the best reason why Meramec Dam should be built. Next they were asked to state the best reason why it should not be built. All respondents were asked to reply to both questions regardless of their personal preference for the project. Overall, 51% of the respondents spontaneously offered the loss of some natural amenity (e.g., free flowing streams, caves, wildlife) as the best reason why the dam should not be built. 16% cited the displacement of farmers or other people living in the project area. Only 8% cited tax or project cost issues.

This ordering of best reasons applied to all three sub-groups—those who were for and against the dam and those who were undecided. Their responses to the question, "What is the best reason why Meramec Dam should not be built?" were as follows:

Principal Reasons Cited	FOR the dam (33% of all respondents)	AGAINST the dam (44% of all respondents)	UNDECIDED (17% of all respondents)
loss of natural amenities	40%	62%	47%
displacement of farmers	15%	11%	30%
tax or cost related issues	14%	3%	11%
	69%	76%	88%
Other Reasons Cited			
no good reason not to build the dam	26%	0%	7%
no need for the dam	2%	16%	2%
safety issues	2%	2%	3%
dam will ruin area	1%	4%	1%
	100%	100%	101%

Moreover, voters generally believed that the project would produce economic and other benefits in our region. Even opponents of the dam believed that it would produce certain economic benefits, particularly new jobs. However, this group did not believe that these benefits were important or essential to our region.

Thus, it can be concluded that St. Louisans want the Meramec River to remain natural. They are even willing to forego anticipated economic benefits from a large public works project to preserve the natural integrety of this stream. Voter interest in the Meramec River is clear and compelling.

This survey tested a stratified random sample of approximately 800 registered voters in St. Louis City and County. The sample was stratified in accordance with the percentage of voter turnout in the last off-year primary election and the distribution weighted in proportion to the number of current registered voters.

The survey questionnaire was designed jointly by Olsen Research of St. Louis, headed by Robert P. Olsen, Jr., and Missouri Opinion Research of Columbia, headed by Roger Eastman. The survey was conducted over a one month period from mid-May to mid-June, 1978. It was administered by telephone interview utilizing up to four repeat calls to reach the selected sample. Each interview lasted approximately twenty minutes and was carried out by trained volunteers.

Public Lands Institute/NRDC
Incorporated

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[illegible]

403 Castle Drive
Jefferson City, Missouri 65101

July 31, 1981

Statement for the record on S. 1493 by Charles H. Callison for the Public Lands Institute, a division of the Natural Resources Defense Council, 1725 I Street, N. W., Washington, D. C.

To the Water Resources Subcommittee, Senate Committee on Environment and Public Works, Senator James Abnor, Chairman.

I reside at 403 Castle Drive in Jefferson City, Missouri. I was reared in Missouri, graduated from the University of Missouri, and in the 1940's served as chief of information for the Missouri Conservation Department and as executive secretary of the Conservation Federation of Missouri. Later I was conservation director of the National Wildlife Federation in Washington, D. C., (1951-1960), and on the staff of the National Audubon Society (1960-1977), the last ten years as Executive Vice President. Upon my retirement from the Audubon staff in 1977 I founded the Public Lands Institute (PLI), a national, non-profit organization supporting good management of government-owned lands. Recently PLI became a part of the Natural Resources Defense Council through merger. I speak as conservationist with long professional experience.

I commend the introduction of S. 1493, commend its sponsors, and urge its prompt enactment. It is a burden on the processes of government and on the taxpayers not to clear the books of these old Corps of Engineers projects that are no longer needed or feasible, if they ever were, and that the public does not want. More than the ones in this bill should be deauthorized, but this is a good start.

Seldom are the voters in the affected area given a chance to register their approval or disapproval of a Corps project. Given a chance, Missourians in the Meramec River basin voted by a 2 to 1 margin against the Meramec Park Dam which this legislation will deauthorize. The outcome did not surprise me. Missourians have always treasured their clear-water, free-flowing Ozark streams, and that is the reason why dams once proposed for the Current, Jacks Fork, Meramec and its tributaries and Gasconade and its tributaries were never built. As long ago as the late 1940's, when I was executive secretary of the Conservation Federation of Missouri, it was part of my job to discover and to articulate the public opposition to dams on the Meramec and Current Rivers. The Current, as you know, became the original -- the first -- National Wild and Scenic River.

As a Missourian, I wish to address myself particularly to the Meramec plan sponsored by my Senators Eagleton and Danforth and endorsed by Governor Christopher S. Bond and the State Departments of Natural Resources and Conservation. It is a sensible plan, a plan very much in the public interest, and I fault it only for being too conservative. More of the lands acquired for the Army Engineer project should be kept in public ownership and integrated in the State park, State forest and wildlife area systems. I endorse the bolder plan advanced by the Meramec Heritage Riverway Association and described for this Subcommittee by Mr. Jerry Sugarman.

Under this plan, the great majority of good farming land would be returned to agriculture under private ownership, offered first in resale to the former owners. But the scenic and forested areas, not valuable for agriculture, would be retained under State management to form an extraordinary conservation and recreational corridor.

Director Fred A. Lafser of the Missouri Department of Natural Resources has detailed for you the remarkable, and invaluable, concentration of archeological sites that exist in the proposed major addition to Meramec State Park. I remind you of them only for emphasis. Preservation of these cultural resources is justification enough for passage of this legislation. How much better it is than drowning the Meramec Valley with all of its riches in scenic, recreational, wildlife and cultural resources under a reservoir that no one needs!

The argument is being advanced from some quarters that an impoundment is needed somewhere in the Meramec basin to augment future water supplies for the St. Louis metropolitan area. Situated as it is at the confluence of the nation's two greatest rivers, St. Louis is one inland city that need not worry about future water supply. For water supply purposes, a dam on the Meramec or one of its tributaries would help nobody anywhere in the United States.

Once again, I urge prompt and favorable action on S. 1493.

H. Pattison

II

97TH CONGRESS
1ST SESSION

S. 1493

To deauthorize several projects within the jurisdiction of the Army Corps of Engineers.

IN THE SENATE OF THE UNITED STATES

JULY 16 (legislative day, JULY 8), 1981

Mr. ABDNOR (for himself and Mr. MOYNIHAN) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

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A BILL

To deauthorize several projects within the jurisdiction of the Army Corps of Engineers.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) Section 204 of the Flood Control Act of 1965 (Public Law 89–298) is amended as follows: "The Dickey-Lincoln School Lakes Project, Saint John River, Maine, is hereby modified to deauthorize that component of the project known and referred to as the Dickey Dam and its associated transmission facilities.".

(b) No Federal agency or department shall consider any license application relating to hydropower projects above the site of the Lincoln School Dam on the Saint John River and its tributaries, Maine, for a period of five years after the enactment of this Act.

SEC. 2. (a) The authorization for the Meramec Park Lake (hereinafter in this section referred to as the "project") contained in that portion of the general comprehensive plan for flood control and other purposes in the Upper Mississippi River Basin, which plan was authorized by section 4 of the Act entitled "An Act authorizing the construction of certain public works on rivers and harbors for flood control, and for other purposes", approved June 28, 1938 (52 Stat. 1218), as modified by section 203 of the Flood Control Act of 1966 (80 Stat. 1421), is hereby terminated.

(b) The Secretary of the Army, acting through the Chief of Engineers (hereinafter in this section referred to as the "Secretary"), shall immediately undertake interim management and maintenance of works, structures, and interests in lands related to the project pending the implementation of the subsequent provisions of the Act.

(c) The Secretary shall dispose of works, structures, and interests in lands related to the project as follows:

(1) To the State of Missouri, all right, title, and interest in and to—

(A) Meramec State Park extension, consisting of three thousand eight hundred and twenty-three acres.

(B) Onondaga Cave State Park extension, consisting of one hundred and twenty-four acres.

(C) Huzzah State Wildlife Management Area extension, consisting of nine hundred and forty-five acres.

(D) Endangered species sites, consisting of not more than two hundred acres.

(E) Campbell Bridge access, consisting of not more than ten acres.

(F) Sappington Bridge access, consisting of not more than ten acres.

(G) Liberty Road access, consisting of not more than ten acres.

(2) A perpetual easement sufficient to safeguard for the river user the natural, cultural, and visual resources of the Meramec River and Huzzah and Courtois Creeks shall be conveyed to the State of Missouri within nine months from the date of this Act. The Secretary is hereby directed to establish such easements in conjunction with the State of Missouri. Said easements shall be not less than one hundred feet nor more than one-quarter mile as measured from the normal high-

water mark of said river and creeks, taking into consideration the varying terrain of such lands and the best public interest.

(3) A perpetual easement sufficient to provide for and allow pedestrian use of a corridor of land connecting Meramec State Park with the Huzzah State Forest shall be conveyed to the State of Missouri within nine months from the date of this Act. The Secretary is hereby directed to establish such easement in conjunction with the State of Missouri. Said easement shall be not less than one hundred feet in width and shall be used for the development of the Ozark Trail, which will be constructed and maintained by the State of Missouri.

(4) The remainder of the works, structures, and interests in lands related to the project shall be offered, within a period of one year from the date of enactment of this Act, for sale to the previous owners at the price paid to them by the Government or at current appraised value, whichever is less. Such former owners shall have a period of one year in which to enter a contract for the repurchase of such properties, after which any remaining works, structures, and interests in lands shall be sold at a public auction, or a series of public auctions, to be conducted following reasonable

public notice and advertising of the time and place of such auction or auctions, until such time as all remaining works, structures, and interests in lands have been disposed of.

(d) The Secretary is authorized either to comply with or to enter into a mutual agreement to cancel any executory contract the United States has entered for the purchase of lands for the project at the request of any landowner who is a party to such a contract, within six months after the date of enactment of this Act.

(e) Nothing in this section shall terminate the authority or responsibility of the United States to satisfy, pursuant to the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (49 U.S.C. 4601 et seq.) and any other applicable provision of law, all relocation assistance, and other obligations arising out of the acquisition, prior to the date of enactment of this Act, of any interest in real estate for the project.

(f) There are authorized to be appropriated such amounts as may be necessary to carry out this section. Funds available for the projects deauthorized by this section may be used to carry out the provisions of this section.

SEC. 3. The authorizations for the projects described in this section, the locations described, are terminated upon the date of enactment of this Act:

(a) ILLINOIS: HELM RESERVOIR.—The project for Helm Reservoir, Skillet Fork of the Wabash River, Illinois, authorized by section 203 of the Flood Control Act of 1968 (82 Stat. 739) as part of the Wabash River Basin comprenhensive plan.

(b) ILLINOIS: LINCOLN DAM.—The project for Lincoln Dam and Reservoir, Wabash River, Illinois and Indiana, authorized by section 204 of the Flood Control Act of 1965 (Public Law 89-298).

(c) INDIANA: BIG BLUE DAM.—The project for Big Blue Dam, Big Blue River, Indiana, authorized by section 203 of Public Law 90-483.

(d) ILLINOIS: ILLINOIS RIVER DUPLICATE LOCKS.—The project for the Illinois Waterway, Illinois and Indiana, authorized by section 101 of the River and Harbor Act of 1962 (Public Law 87-874).

(e) INDIANA: LAFAYETTE DAMS.—The project for the Lafayette Dam and Reservoir, Wild Cat Creek of the Wabash River, Indiana, as authorized in section 204 of the Flood Control Act of 1965 (Public Law 89-298, 795 Stat. 1081).

(f) VIRGINIA: NANSEMOND RIVER.—The portion of the project for the Nansemond River, Virginia, from the United States Highway 640 Bridge at Suffolk, Virginia, to the upstream project limits at river mile 18.66, a distance of approximately two thousand five hundred feet, authorized by the first section of the Act entitled "An Act making appropriations for the construction, repair, and preservation of certain public works on rivers and harbors, and other purposes", approved August 11, 1888 (25 Stat. 410), and modified by the first section of the Act entitled "An Act authorizing the construction, repair, and preservation of certain public works on rivers and harbors, and for other purposes", approved July 3, 1930 (46 Stat. 922).

(g) INDIANA: CLIFTY CREEK DAM.—The project for the Clifty Creek Dam, Clifty Creek, Indiana, authorized by section 201 of the Flood Control Act of 1965 (Public Law 89-298).

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